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HOME LOAN GUARANTY PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

July 31, 1987

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HOME LOAN GUARANTY PROGRAM

Friday, July 31, 1987

House of Representatives,
Subcommittee on Housing and Memorial Affairs,
Committee on Veterans' Affairs,
Washington, D.C.

The subcommittee met, pursuant to notice, at 12:00 p.m., Auditorium, HL&P Energy and Information Center, 6700 West Loop South, Bellaire, Texas, Hon. Marcy Kaptur presiding.

OPENING STATEMENT OF CHAIRWOMAN KAPTUR

Miss **Kaptur**. The subcommittee will come to order.

First, let me say it is a real pleasure as Chair of the Veterans' Affairs Subcommittee on Housing and Memorial Affairs to accept the invitation of Congressman Jack Brooks, frankly, one of my favorite members of the U.S. Congress, to come to Houston.

I am from the State of Ohio, and would not normally choose to come to Houston in 100-degree weather. So, this is not a congressional junket. We came here because of Congressman Brooks' serious concern about what was happening here in Texas and in Houston with our veterans housing program. I want to thank Congressman Brooks, who has been extremely busy over the past several months as a member of the Select Committee to Investigate Covert Arms Transactions With Iran. In fact, when I walked out of the office the other night, you were on national news, and asking very important questions that need to be asked for the country. Now he is here today to join us for a portion of this hearing. We hve selected Houston as well because, in terms of foreclosures in veterans' housing, Houston ranks No. 1 in the Nation.

Fully 25 percent of home foreclosures that are occurring in the veterans housing program are occurring here in your area.

I come from Toledo, Ohio, an area that has been hard hit by recession in the early eighties and also continues to experience difficulty in the automotive industry. Therefore, I can identify with some of the problems that you are experiencing with the oil industry.

We have figures here which I would like to include in the record. Last year in the veterans' housing program, the State of Texas experienced 7,338 foreclosures; and, this year, to date, there are 6,984 foreclosures. That says to me that the trend is still going up and we will welcome the witnesses' testimony today.

Approximately 70 percent of those foreclosures in Texas, however, occurred here in the Houston area; and nationwide, Houston's foreclosures account for 23.4 percent, almost a quarter, of our foreclosures in the Veterans' Administration.

As a result of your situation here as well as around the country, our subcommittee has held five hearings, both in Washington and around the nation. We have heard from a broad section of the public, and from industry. In fact, we had a witness here recommended by Mr. Brooks, Mr. Jake Kamin, who is also with us today. He traveled all the way to Washington to express concerns about what was happening here in the Houston area.

We have heard from people in the government and we welcome the witnesses from the VA today. We have heard from a number of veterans' groups as well as members of Congress. As a result of all of that testimony, we have proposed legislation that includes changes in the VA appraisal process and proposals to assist homeless veterans. We changed the requirements for VA loan servicing and also the foreclosure procedures, including policies on no-bid properties, which I know is an issue here.

We strengthened property management requirements. We have improved the current guaranty formula in the housing program, and we do provide for an adjustable rate mortgage in one demonstration program in one region. All of these proposals will be coming up on the Floor on Monday in a bill that will be considered by the Full House of Representatives.

In the bill that will be considered and which we would like you to comment on today, we have made two major improvements for trying to help veterans who wish to continue purchasing homes and also we have made major improvements to help veterans keep the houses on which they have obtained guaranteed loans should they experience financial difficulty.

As stated earlier, the situation in Houston is very serious, and the bill, therefore, would require the VA to address problems in communities like yours, to provide more effective servicing when a loan goes into default. At a minimum, veterans are to be advised of the alternatives to foreclosure that may be available to them, including voluntary deeds in lieu of foreclosure.

In addition, the bill establishes a new mortgage foreclosure relief program targeted to veterans who have experienced default through no fault of their own. In essence, the bill would authorize the head of the Veterans' Administration to provide mortgage assistance to prevent foreclosure up to a maximum of an additional $8,400 to veterans or their surviving spouses if they are unemployed, if they have suffered a substantial reduction in household income, and if they have previously guaranteed VA housing loans which are at least 6 months delinquent.

We also provide in this bill the opportunity for local groups in communities to bid and to obtain veterans properties, the homes that are already in the portfolio that have been foreclosed, at a 25 percent discount, and to try to bring those homes back on to the market if those who would acquire those foreclosed properties would agree to employ unemployed veterans through our Veterans Jobs Training Act, to improve the properties. So, there is a real incentive there for non-profit groups as well as local governments to bid on these properties.

The special loans that I mentioned earlier that would provide the additional $8,400 would be set up as escrow accounts in lending institutions and would have to be repaid during such time as may be set by the administrator but in no event any longer than 15 years. I call that our piggy-back mortgage program where we try to provide additional relief.

In addition, our bill would also modify the VA's property acquisition guidelines in respect to the calculation which the VA makes when determining whether a property will be treated as a no-bid case. Under the formula, interest resulting from exercise of lender forbearance at the VA's request, delays in the foreclosure process caused by the VA itself or commencement of voluntary bankruptcy proceedings by the veteran will not be included in the no-bid calculation.

We developed this language as a result of testimony from Mr. Kamin and others as well as the Mortgage Bankers Association in Washington.

We are here to let all of you and the people of Houston know today that we are aware of the situation that you are facing and we are trying to do something about it. We believe the best way to hear about it is not to sit in Washington, but to come here to communities across the country, and we are very interested in your recommendations.

We recently were in South Carolina and, frankly, I thought that hearing was superb. We heard many excellent ideas that are now a part of our legislation.

Before I call on our first witness, who is the Director of the VA Regional Office, Mr. Ted Myatt, I would like to recognize a Congressman who teaches other Members of Congress how to be effective and honest Members of Congress. I am wondering if perhaps Congressman Jack Brooks might have a few words for us this afternoon.

We really welcome you here. Thank you for the invitation.

(The prepared statement of Chairwoman Kaptur appears on p. 79.)

STATEMENT OF HON. JACK BROOKS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Brooks. Thank you very much, Madam Chairwoman, a distinguished and able Member of Congress. What many of you may not know is that Miss Kaptur has a B.A. from the University of Wisconsin, a Master of Urban Planning from the University of Michigan, and attended the University of Manchester in England. She served in the White House during the Carter administration as Assistant Director for Urban Affairs on the Domestic Policy staff and that is when I met her. She has a good background in housing and in urban problems and brings to it a lot of expertise that most Members do not have.

You know, it is all very important how they botch up things in the White House, but it is a lot more serious how things go down here in Houston, Beaumont, and Port Arthur. I welcome you to Houston and appreciate your coming here to hold this hearing and to meet my friends and the people I represent and love.

Since its inception in 1944, the Veterans Home Loan Guaranty Program has helped over 12 million veterans throughout the country become homeowners. Today, however, many of the homeowners in southeast Texas, veteran and non-veteran alike, are undergoing difficult times because of the severe economic conditions caused by the dramatic drop in oil prices.

Fortunately, the price of oil is up to about $21 a barrel and may go higher, but in the interim more than 200,000 jobs in the area have been lost and the foreclosure rate on homes is one of the highest in the nation.

In short, we have been facing a housing crisis. Mounting foreclosures lead to depressed prices which, in turn, lead to more foreclosures and further decline in property values. This vicious cycle is destabilizing our neighborhoods and reducing the tax base from which city and county governments and various other public bodies finance essential public services.

Unfortunately, some veterans who purchased their home under the Home Loan Guaranty Program are, through no fault of their own, frequently victims of this crisis. The veterans need and deserve help from both the Congress and the VA.

H.R. 2672, which was reported out of the Veterans' Affairs Committee will help; particularly, the section which authorizes loans to veterans facing foreclosure. Other legislative changes may be desirable, but new legislation alone is not going to provide all of the assistance needed.

The VA is going to have to do its part to improve loan servicing and property disposition and by improving loan servicing, and I do not mean to speed up the number of foreclosures they are able to get through the mill. That is not what I call help. I am concerned that the VA has not been counseling veterans on the financial assistance options available to help them avoid foreclosure.

Though the Veterans' Administration has the authority now, Miss Kaptur, to refund delinquent loans and establish a repayment plan based on their ability to pay, the General Accounting Office found that the Houston Regional Office last year refunded only seven veterans loans' on more than 5,600. I must say that I know of a man, an individual speculator, who bought seven VA homes and received a reduced interest rate. He was a non-veteran buying seven homes for speculation, but we cannot do that for the veterans? I do not think it makes sense.

I am also concerned about the effects of the increased use of the "no-bid" procedure, where the VA pays the guaranty on a defaulted loan and the lender assumes the title. This practice is not only a disincentive to the lender to work with the veteran homeowner who is delinquent to save his home, but it leaves the veteran, who has lost his home, even further in debt and will undoubtedly discourage many lenders from future participation in the home loan guaranty program. I do not see how anybody would ever loan him a dime under this program with any assurance that they are going to get their money out or ever survive the changes made and the operating procedures now existent in the VA.

And, finally, I am troubled about the VA's indiscriminate use of auction sales to dispose of repossessed properties. This practice has contributed to the accelerated deterioration of property values. It encourages other homeowners to stop making payments when comparable housing in the neighborhoods sell at an auction for a fraction of the amount of their mortgage balances. The prospect of additional auctions will prolong the weak housing market which currently exists.

I want to say again, Miss Kaptur, that I appreciate your own keen insight into the impact this housing crisis has on our area. It affects Beaumont and Port Arthur and Houston now, but next year it may affect Boston or it may affect San Francisco or Oshkosh, Wisconsin. The impact of VA's guidelines in a severe economic decline like we have experienced and are experiencing is just disastrous. Instead of helping to bring the economy back, they further depress it. VA's quidelines regarding foreclosures exacerbate the problem in a depressed economy.

This can happen in Detroit, it can happen in Cleveland, it can happen anywhere. I think the guidelines need to be changed. The regional director did not write them and it is not his fault, but they can utilize their refunding capability. It is cheaper to refund a house and keep a veteran in it than it is to pick up the house on foreclosure, pay all the costs of handling the paperwork of taking it out of circulation, of maintaining that house, keeping the bums out of it, keeping somebody from burning it up or knocking all the windows out of it.

You know, I remember when little kids used to go around if there was a vacant house and just for the fun of it take rocks and break all of the windows. Now, I am sure that they would not do that now, but I distinctly remember seeing people do that, and I was not looking in a mirror, I want you all to know. I told them they ought not to do it.

But I do appreciate, Miss Kaptur, your compassion and your pragmatic business judgment that insists on equity for all segments of the housing industry, which is essential if we are going to continue to have viable government housing programs, programs which have enabled millions of Americans to reach the American dream and own their own homes.

I thank you.

[Applause.]

(The prepared statement of Congressman Jack Brooks appears on p. 82.)

Miss KAPTUR. Thank you. I would say thank you, Mr. Chairman. That is what we call him in the House of Representatives.

I wanted to just make mention before I call on Mr. Smith for some brief remarks that, before we came here this morning, I went to your VA Hospital here in Houston. I want to tell you this because sometimes people in your own town do not recognize what they have, and they are going to get a new hospital by 1989. I know how hard you fought for that as well as Congressman Mickey Leland.

One of the reasons I wanted to go to the Veterans' Hospital here in Houston is because the Houston VA hospital is regarded as the finest hospital within the Veterans' Administration system. We have 172 hospitals nationwide. It is considered the finest hospital for cardiac and thoracic surgery and people come here from all across the country. Members of Congress come here, who are veterans, for surgery because of its connection with Baylor University and the Texas Medical Institute now, as well as the DeBakke Clinic. I think people in your community, as you weather some of these hard economic times, should remain very proud of not only that but other investments here that have really put Houston and will keep Houston on the map. I have to say we were most impressed with the chief medical director whom we had a chance to talk to. I really welcomed the opportunity to spend some time there.

So, congratulations to that center. You should be very, very thankful that it is here and making history all across the world based on some of the research and the type of physicians associated with it.

One thing about the Veterans' Committee, we are not a partisan committee, as hard as that is to believe; and, frankly, it is a pleasure to serve on the Veterans' Committee compared to some of the other committees that I serve on in Congress. We feel we accomplish a lot, and one of the reasons we do that is because of the bipartisan spirit that exists on the committee.

I wanted to recognize Mr. Kingston Smith, who is our Deputy Minority Counsel, and I know that he wants to express the views of our ranking minority member, Dan Burton of Indiana, who serves with me and could not be here today in Texas.

Kingston.

Mr. Smith. Thank you, Madam Chairwoman.

Representative Dan Burton of Indiana, who, as you mentioned, is the ranking minority member of the subcommittee, regrets that he is unable to attend today. He is following the situation in Houston very closely and the reason I am here today is to report back to him on it.

He associates himself with your remarks; he agrees with them and shares your concerns and Mr. Brooks' concerns about the foreclosure situation in Houston.

Mr. Burton has worked closely with you on the housing bill, H.R. 2672, to be considered by the House on Monday. He fully supports it, and will be continuing to work with you closely on the housing concerns of veterans, especially those in the Houston area.

Thank you.

Miss Kaptur. Thank you very much, Kingston. We appreciate it.

Finally, before I call on the witnesses, let me say that the final reason I wanted to come here to Houston is I wanted to see what kind of people and what part of America were wise enough to send this kind of man of good humor to the Congress of the United States. I thought it must be the water that comes out of the Gulf.

Let me call first this morning, Mr. Ted Myatt, Director of the VA Regional Office in Houston, who is accompanied by Mr. Ralph Franks, the Assistant Director, and Mr. Mike McReaken, the Loan Guaranty Officer.

If we could start with Mr. Myatt. Try to keep your remarks within the 5-minute time limit, please.

STATEMENT OF TED MYATT, DIRECTOR, VARO HOUSTON, VETERANS' ADMINISTRATION; ACCOMPANIED BY RALPH FRANKS, ASSISTANT DIRECTOR, AND MIKE McREAKEN, LOAN GUARANTY OFFICER

Mr. MYATT. Madam Chairwoman, Chairman Brooks, I must say it is not often that I address two chairpersons, and I am sure this hearing will be in good order with two chairpersons.

It is a pleasure to appear before you and a distinct privilege to discuss the VA Loan Guaranty Program here in Southern Texas.

Madam Chairwoman, since you are a visitor, let me make a very few brief remarks about the regional area that we serve because it does extend well beyond the Houston area, essentially it constitutes the southern part, the southern half of the State of Texas. It is a large area. It is a populous area, generally thought of as about number ten in size among the fifty-eight regional offices. So, that gives you some idea about the size of the operation.

The loan guaranty program, though, interestingly enough, a very popular program here, is number three in terms of size among the loan guaranty operations that the VA has in the system. It is certainly one of the big three in terms of size of our loan guaranty operations.

We have 119 employees in loan guaranty now and that does place us third.

We are a diverse region. The Upper Gulf Coast area here, bustling as it is, is vastly different culturally, economically, from, say, the Rio Grande border region, which has its own set of economic problems. We have two of the major cities in the country, Houston, number four in the country in terms of population, San Antonio, number ten.

We have—yes?

Miss KAPTUR. Excuse me, sir. What is the population of Houston?

Mr. MYATT. The metropolitan area now is right at 3.5 million. I am not able to give you the specific number.

Miss KAPTUR. That is fine.

Mr. MYATT. The Hispanic influence is quite important, beginning with San Antonio in the West. The percentage of Hispanics in the population in those counties running south to the Rio Grande border there on Mexico, runs from 50 percent in San Antonio to the 90 percentile range down along the border. So, certainly, the Hispanic influence is important.

Now, then, let us get directly, if I may, to the loan guaranty program with those preliminaries aside. The loan guaranty program has been a very significant force in the growth and overall development of Southern Texas. We have guaranteed here in the Houston region, which is composed of ninety counties, some $13.3 billion in single family dwellings since the program's inception in 1946.

As I have already indicated, it has been a popular program and we have one of the VA's larger operations here. During the boom years in the 1970s and the very early eighties, of course, the focus here was on loan origination, as you might expect. We in the business more commonly refer to it as the front end of the program.

Unfortunately, with the down slide beginning in 1982, practically the whole emphasis here in the Houston Regional Office has been on the back side or the property acquisition and sales end of the loan guaranty picture. The economic down slide began here first, I suppose, in the Upper Gulf Coast area, but we see now that it has spread, this economic malaise has spread throughout the entire region that we represent.

It would be very difficult, I think, to over-estimate the tremendous adverse impact that it has had on housing markets all over the region. People began to walk away from their homes as Chairman Brooks has indicated. Beginning in 1985, foreclosure rates reached all time records in many areas. Houston with many, many VA properties, of course, guaranteed properties, was one of the very hardest hit.

I do not know of any optimistic predictions from reputable economists that this thing is going to be very short-term. I think that the consensus is that it will be a rather long-term recovery. The housing markets, the predictions are that it will be in the 5 to 10 year range before reasonable normalcy is restored in areas such as Houston.

The somewhat hopeful estimates about a down turn in the foreclosure rate toward the end of this year, that we have seen, I certainly hope are true, but, frankly, in the figures that are available to us, we do not see yet indications of that. Perhaps it will come.

I have provided for the record, Madam Chairwoman, some figures which perhaps will give a better insight on the foreclosure picture in the Houston region. You will see that fiscal year to date, that is 9 months, through June of 1987, the number of defaults reported has been very high, totals 13,619. We acquired during those same 9 months 3,048 properties. We sold 2,880. That is an average per month in acquisitions of 339, an average in sales of 320.

I will have a little bit more to say about that in just a moment. I recognize my time is running out and I want to get through my statement, if I can.

About 50 percent of our inventory is located here in the Houston, Greater Houston area. It has put a big strain on the regional office for a period approaching almost 5 years and I would like to publicly say how proud I am of the employees of the Regional Office who have kept a heads-up attitude, I feel, through this entire thing and have persevered and face the challenges ahead with determination.

Now, I have outlined a pretty gloomy scenario. However, I want to say that I see a number of positive factors which give me some real encouragement. I now see a definite commitment by the Department and it has been more and more true as this year has worn on that they are determined, I am talking about the Department of Veterans' Benefits in which we reside organizationally, that they are determined to put the necessary resources into Houston. This has been one of the big problems since limited resources are available to them.

Most of these things that we are talking about take people to accomplish as well as ADP equipment, dollars and that sort of thing, and adequate resources is certainly a big part of the equation.

I have been assured that we are going to get more FTE, more people, more employees in the future. Badly-needed ADP equipment, computer equipment, has been provided for our operation. Scarce overtime and contract dollars have arrived just recently in ever-increasing amounts. Two task forces have been recruited by Central Office and sent to Houston here in the past 14 months.

I am confident that the Department has the understanding of our situation and has the determination to assist insofar as it is possible.

Madam Chairwoman, in concluding my statement, I want to say that I know of only two ways, two basic ways, that this problem can be addressed by the Regional Office.

As Chairman Brooks has indicated, we do not set the policy here. Of course, we do not legislate. We try to carry those out as they are set, but I think there are a couple of things we can do and one of them, the first with the help of Central Office, first, we need even more resources to deal with the badly out-of-line situation.

We have gotten help, found some more help. We need help in order to handle this thing adequately.

Secondly, I think it is incumbent upon us to do the very best job, most effective and innovative job we can of handling a very unusual situation. We have found the traditional methods will not always work in a situation like this.

As an example, this past year, our emphasis has been on improving our property sales, which were not good at all, and we have adopted a number of new and innovative concepts, more realistic pricing policies, public bid openings. These are examples. More aggressive sales tactics and a very important one, I think, an overall closer liaison and working relationship with real estate brokers in the Houston market.

I want to say here, I know you are going to hear from the Houston Advisory Council in a moment, I want to say that this group, that is our advisory group, has been most helpful to us, and many of the innovative ideas which have helped them improve our property sales this year had their genesis really with this advisory group, and we have also received assistance from the Loan Guaranty Service in the Central Office.

So, our sales this year, we are proud of. Our sales improvement. We had a sales acquisition ratio of 45.101 percent last year. Through the 9 months of fiscal year 1987, concluding in June, we have a record of 94.5 percent. This is a tremendous increase. I think we will reach a 110 percent ratio by the end of the fiscal year and we intend to do that.

Let me close, I heard the timer, some ideas have already been expressed about better servicing. That is going to be, incidentally, our next emphasis in this VA Regional Office, better servicing of loans. When you do not have enough people to handle what you have got; a lot of things go. We have not done the job on servicing of loans that we should have done, and we need to do much better.

One of the things that is required for us to do that is additional people. We have gotten some help recently, as I have indicated. We have been promised more in the future, and with that help, I think we can do a great deal more in the way of avoiding, helping veterans avoid foreclosure. It requires more resources. It also requires a local management commitment and I pledge to you that we are going to make that. We are going to work with the mortgage lenders in seeing that they more adequately carry out their own servicing obligations through workshops and encouragement because they, first of all, have a basic responsibility in this regard. It is, first of all, their loan guaranteed by VA.

So, it is a cooperative area there between the agency and between the mortgage lenders.

Madam Chairwoman, I apologize if I have gone on too long. I wanted to try to make as complete a statement as I could about the situation here. I firmly believe that we have a better handle on the situation than we did earlier, say a year ago, and I am encouraged at this point, and I believe we will continue to improve our effectiveness in dealing with one of the agency's most troublesome situations.

This concludes my formal remarks. I thank the subcommittee for this opportunity to appear, and I will be happy to try to respond to any questions. I have, as has already been indicated, my Assistant Director and my Loan Guaranty Officer. Mr. Franks, incidentally, came up through the loan guaranty ranks and has been a loan officer in several stations as well as several years in the lending, mortgage lending business in the private sector. So, he speaks with some authority.

Mr. McReaken, of course, is the man who runs the program here in the Houston Regional Office, and they will assist me.

Thank you, Madam Chairwoman.

(The prepared statement of Mr. Myatt appears on p. 84.)

Miss KAPTUR. Thank you, Mr. Myatt, very much, and I certainly hope you gentlemen with all of your experience will feel free to comment on whether you think our new proposals in our legislation will help you or hinder you or what we forgot to do. We are open and very interested in being helpful and not a hindrance to what you are trying to do here.

Mr. Myatt, I wanted to ask you, you said you have 119 people in your loan guaranty program?

Mr. MYATT. Yes, ma'am.

Miss KAPTUR. And do you know the number approximately in your loan servicing area, how many people are assigned there?

Mr. MYATT. Let me see if I have those figures, Madam Chairwoman.

There are 39 people in the loan servicing section.

Miss KAPTUR. Thirty-nine? All right. And would it be your expectation that in cooperation with Central Office, that that number would be expanded over the coming months, especially as a result of our legislation?

Mr. MYATT. Yes, ma'am. I would certainly hope that it would be.

Miss KAPTUR. Would that help you here?

Mr. MYATT. It would, indeed, to have an increase in the loan servicing personnel.

Miss KAPTUR. Now, could you tell me this, how do you react to our proposal to include an additional $8,400 as well as the increased servicing? Will that help you in trying to deal with some of these veterans that are losing their homes down here? Is that a sufficient approach?

Mr. MYATT. I do not want to seem evasive, Madam Chairwoman. It is not my place to comment on policy and let me make the general statement that I do not want to get crossways with my bosses, of course. I do not know what position they have taken.

Miss **Kaptur**. They like that. They like this. So, you are safe.

Mr. **Myatt**. I will be very frank about it.

Miss **Kaptur**. They did not call you and tell you not to say anything, you can say things.

Mr. **Myatt**. Certainly, anything that would help keep these veterans in their homes. Foreclosure is a nasty business, and we do not like it a bit. Any program that would help keep them in those homes, I would support as a general principle.

What I am saying is that specific acts that have been introduced, I am not prepared to comment on.

Miss **Kaptur**. All right. Could you tell me, how long does it take you to market and sell property?

Mr. **Myatt**. May I defer?

Miss **Kaptur**. Please. Mr. McReaken?

Mr. **McReaken**. We are able to sell properties in an average of about 10 months holding time.

Miss **Kaptur**. Ten months?

Mr. **McReaken**. Ten months. Now, that does not count the time that it takes us to receive an acceptable title submission once the property is foreclosed. We require the lender to provide us four pieces of title evidence, legal documents and a title policy, so that we can pay for that property and accept the property in our inventory.

We do not begin our marketing until we get that property's title. It averages right now anywhere between 3 and 6 months before a lender presents us with an acceptable package. So, that property is basically sitting there under our custody.

Once the foreclosure takes place, the lender usually elects to convey the property to us. At that point in time, we then become responsible for the management of that property, maintenance and that type of thing. We cannot market that property until we have title.

So, when I look at a 6-month at the maximum delay, then add on to it my marketing time, which may be anywhere up to 10 months, depending on the location and the price that I put on that property, it is a considerable time.

Miss **Kaptur**. One of the Houston home builders, a gentleman I have not yet met, a Mr. Perlman, suggested the possibility of your renting out some of your properties. How do you react to that proposal?

Mr. **Kamin**. You have the same problem.

Mr. **McReaken**. I believe the Government is a very poor landlord. We have difficulty in making sure that all of the properties we own are maintained adequately, even though we have the services of management brokers in the field, and we have about 100 in the 90 counties. Approximately 40 to 50 of those management brokers are in the Greater Houston area.

To burden this agency with worrying about collecting rents, making sure the heat and hot water works for a tenant, making sure the tenant pays his rent on time is really an added burden. I would prefer to stick strictly with the sales operation.

Miss **Kaptur**. In the testimony that you submitted, Mr. Myatt, it shows that you sold 200 more properties in June than at any other time since last October.

Could you explain what happened there? What were you doing differently?

Mr. MYATT. Well, a number of things, Madam Chairwoman.

First of all, as I have indicated, we had new resources that we had not had before, more people to do the job, improved ADP equipment. I think the main thing that happened in our improvement was a change in our thinking, adopting more aggressive sales tactics. That means pricing.

We had to drop our prices and get competitive. This is an example of when I say new thinking. The Houston Advisory Council was, I think, quite influential in bringing to us solid information. We were kind of isolated from the market. We were not used to selling houses, you know. We were used to building houses, helping guarantying houses that veterans were having built back in the boom days. So, it took a long time to get our thinking straightened out on switching to the other end of the operation.

I think we have learned a lot of lessons about how to sell houses, and that these ideas have played a part in helping our sales record.

Miss KAPTUR. To what extent does your Regional Office use the refunding program?

Mr. MYATT. Not enough probably, as has already been mentioned. What was our record last year?

Mr. MCREAKEN. Not very good. About 17 and we have about 40 in the pipeline right now. Can I speak to this?

Miss KAPTUR. Please. Why is it not higher?

Mr. MCREAKEN. I have approximately 39 people in loan servicing. Of that number, about seven are responsible for or supplemental servicing of the delinquent GI Loan Portfolio. We are talking 17,000 pending defaults in this region alone.

Those seven people have a very difficult time making that initial contact when we are looking at the 1500–1400 new reported defaults each month. We are burdened with an awful lot of paper required to provide information and statistical diary updates and computer-generated assistance in servicing with a system which is just not in the 1980's. It is a slow system, and we are—before we can take one step, we need to put something into the computer to make another step possible down the line.

So, to get into refunding on an individual basis, which it truly is an individual-type of an activity, it is not an assignment of a loan to us, it is a situation where we look at the ability of that lender to accept work with the veteran. If he cannot do it or will not do it—sometimes—most times, he cannot do it. The investor puts requirements on that lender that prevents them from modifying and changing the terms from what was already agreed upon, so the lender cannot do that.

That is the situation if the veteran is interested in staying in the property and if the veteran has the capacity to continue making the payments or it looks like he will have in the very short future, short-term, and the value of that property bears some resemblance or some relationship to the outstanding loan balance, then we can say, yes, we can refund that loan, and it is much better to bring that property back into my portfolio as a loan that I can carry on my books and have that property occupied than have that property come back to me vacant.

The problem that we are seeing is that almost forty, maybe 45 percent of the properties that we are receiving from the foreclosures are vacant. They have been abandoned. So, you cannot refund the vacant property. It just is not possible.

Miss **Kaptur**. Mr. McReaken, what is the average VA loan amount now?

Mr. **McReaken**. In this area, it is between $50,000 and $60,000.

Miss **Kaptur**. That actually is true for the country, and could you tell me, what is happening with your loan originations? We have been talking about the other end, but what is going on with your loan originations, please?

Mr. **McReaken**. Loan originations have pretty much stabilized. They started out quite a low in 1984, moved back up in 1985-86. We are talking fiscal years now. They have been running right at 13,000 new loans closed. A lot of that has come about because of the drop in interest rates and veterans rushing to refinance.

There is a problem in this state because of the homestead law with refinancing, when you have a high interest rate loan, the VA permits the borrower to refinance that to a lower rate, and throw in all the closing costs, the discount points and any of the costs associated with originating that new loan out of the old loan, can be financed.

Because of the homestead law and the VA's legal opinion, in both offices here, and concurred in by General Counsel, we cannot permit those closing costs to be thrown into the new loan. The only portion of the old loan that can be refinanced is the outstanding principal and any accrued interest. Discount points, closing costs cannot be thrown into that loan.

This means that a veteran has to come up with cash to refinance. Most of the time, someone in a default status does not have the cash, otherwise he would not be in default.

Miss **Kaptur**. All right. I am going to turn the questioning over to Mr. Brooks, but I want you each to be thinking about my final question when I come back to myself here, and that is, if you could make one change in the current system that would help here in the Houston area, what would it be? You can think about that.

Mr. Brooks.

Mr. **Brooks**. Thank you, Madam Chairman.

Do you consider, Mr. Myatt and your associates, the auctions the VA held last month to dispose of properties in Beaumont and Houston to have been successful?

Mr. **McReaken**. I believe that the Beaumont, Houston and San Antonio auctions held last month were successful. We sold 95 percent of the properties that were available for sale, there were 561 properties. We sold at auction 533 at or above our minimum floor price, and we believe they were successful.

Mr. **Brooks**. You sold at 60 percent of the list price?

Mr. **McReaken**. Yes, sir.

Mr. **Brooks**. The calculations show that 336 of the homes sold at auction brought an average price of only 33.7 percent of the average appraised value at the time of foreclosure. Depending on where you make the cut, you can make a different percentage.

Of the 336 homes sold in the Beaumont/Houston area, the average foreclosure appraisal was $37,000 plus, average mortgage balance $35,000 plus, average sales price $12,586. It is a little higher in Houston, right around $14,000 plus in Houston, but even lower than that in Beaumont and Port Arthur.

Average time since foreclosure, 23 months. That is a long time for them to sit around empty. A house, if you leave it empty, in perfect condition, will deteriorate rapidly. It is better to have somebody in it. I have several houses and I like to have somebody in them.

Mr. MYATT. I certainly agree with you.

Mr. BROOKS. My little sister and my brother-in-law are using my beach house pretty steady. They do not mind.

Now, what effect do you believe the sale of property at 34 percent of appraised value will have on the values of other homes and on the morale and actions of the people in that same area who are trying to make payments on their mortgages?

Mr. MYATT. Like you said, those properties were held in inventory for about 23 months. That is almost 2 years. That means the appraisals, foreclosure appraisals took place probably 6 months, probably 30 months before we actually sold the properties because we appraise the properties just prior to the liquidation sale.

I want to back up in time just a little bit and give you a little background on the office as far as sales go. For 20 to 30 thirty years, this office was the only VA office in the system that consistently made a profit on every property we sold. Anywhere from 15 to 20 percent over what we had to pay the lender to acquire the property.

We very rarely had a low bid. We very rarely had a debt established against a veteran.

Mr. BROOKS. I do not understand that record. I have been in Congress 35 years.

Mr. MYATT. Yes, sir.

Mr. BROOKS. What I want to say, what I am trying to get across to you all is that while you rode that escalation up and profited from it, out of appreciation of everything you picked up, 15 or 20 percent, because of your management and because the economy was growing, now when it tightens up a little bit, I do not want you dumping it all back on us.

That is my problem with your operation. You made 15–20 percent when you moved them for 30 years, and I am proud of your record. Now when we have some problems, you dump everything you can and you take the appraised value and you appraise the values again, you can get maybe 38 percent of that new appraised value, but it just does not help the economy.

We already have problems. You all are exacerbating the problem. I think we ought to do something about it. I think the VA ought to do something about it. The administration ought to be aware of it. I am just getting all these facts together and then we are going to start firing for effect and get in a rage.

I want to be perfectly candid with you. I want something done about it and you ought to tell them up there in Washington to start thinking about it. I do not want Houston and Beaumont and Port Arthur to be the guinea pigs for this new rotten proposal that I do not like, of dumping off no-bids, unloading all the houses on the street and you are running all the other people out of business.

Our jobs, from the Government standpoint, is to keep people in houses, even if you have to restructure the loans.

Frank, you have been over here. How long have you been here?

Mr. FRANKS. 7 years.

Mr. BROOKS. Well, you understand the program. Your job is to put people in houses at reasonable rates that they can pay. Now,if it is not going to do that, we might as well turn it over to the FHA, dump the whole thing, start over, have a regrouping, you know. I believe in drastic action, if necessary.

Mr. FRANKS.. Well, I would like to say and I will probably answer Madam Chairwoman's question that she was going to ask, what is the most important thing I would do, that would have to do with refunding. Refunding has not been used anywhere in the VA to a great extent up until just recently. Having been in the program for 20 years, it was very rare that we ever refunded loans back at one time.

So, the first thing is you have to change your way of thinking, you have to look at different ideas and things. The biggest problem with refunding when it comes time to refund, this loan is already five to six payments past due. We need more cooperation in my opinion with the lenders working and if a loan is to be refunded, it should be a determination that would be made in the first 60 days concerning a delinquency.

Mr. BROOKS. One other thing I wanted to ask you about. I think that is a workable and easily accomplished thing. I think that the lenders probably would be perfectly willing to cooperate with you to that extent and give you a chance to do it if you would really try and do it.

Mr. MYATT. But, Mr. Brooks, we have got to remember, as Mr. McReaken said, that our properties here, 45 percent of these properties are just walked away from.

Mr. BROOKS. I understand.

Mr. MYATT. So——

Mr. BROOKS. I am not asking for the impossible.

Mr. MYATT. I agree.

Mr. BROOKS. I am just asking that you get that other 55 and refund the heck out of them, you know. I will give up on 45, but I do not want to give up on 98 percent.

Mr. MYATT. All right, sir.

Mr. BROOKS. You understand. Oh, I understand. I did not jump you about that. I know the 45 are in trouble already.

Mr. MCREAKEN. We have held them for 23 months. The prices were too high.

Mr. BROOKS. I have been on both sides of the table. For a period of 8 months last year, the regional office adjusted upward the calculation it used to determine whether to acquire foreclosed properties. Do you recall that, Mr. Myatt? And the GAO estimated that this adjustment increased the average debt of veterans here who lost their homes during this period by about $2,200. Each one of them owes about $2,200 more because we adjusted that curve upward. Do you think the VA has an obligation to these veterans for that increased debt?

Mr. MCREAKEN. I will be quite honest about our appraisals 2 years ago. We were more concerned, the appraisers were more concerned with the selling price of the piece of property than they were with what other houses were selling for around that piece of property, and consequently they aimed for the sales price.

It was not until the early part of 1986 when they finally decided, hey, you know, we are starting to see some negative adjustments. The market was better a couple of months ago than it is now and they started reflecting a more reasonable estimate of the value at that point in time.

In the interim, until all of the appraisers could get, if you want, if I can use the word, fully schooled in what an appraisal meant, we did have authorization to go to 15 percent instead of 10.5 percent.

Mr. BROOKS. It makes a lot of difference. What is that phrase they use? AAO? Appraisal As Ordered. Is that the way you were getting them? How do you all operate that? What do you call it? AAO, Appraisal As Ordered? Reflection on appraisers to some extent, but it indicates that they are able to produce.

Thank you very much. Do you like that one?

Miss KAPTUR. I like that one, Mr. Chairman. I like that one.

Mr. BROOKS. Thank you very much, Madam Chairwoman.

Miss KAPTUR. I neglected to introduce to my left here, Gloria Royce, who is the majority staff counsel on our subcommittee, and I apologize. She is so much a part of our committee that sometimes I forget.

Mr. Franks, I wanted to follow up with that original question that I asked, but also to find out from you, how long does it take for lenders in the Houston area to advise you, the VA, of delinquencies?

Mr. FRANKS. Well, the requirement is and having been out of that for about 7 years, I will try, but they are required to report a delinquency to us in the first 105 days, right.

So, basically, you are three to four payments past due when the VA is notified of it. Now, within today's housing market, when you got thousand dollar monthly payments, you are $4,000 behind already. That is one of the questions that was coming into my mind about your legislation and the $8,400.

If we waited here for a period of time, 6 months behind, would this $8,400 be adequate. I do not know and I am not speaking for the Department again, please.

Miss KAPTUR. We calculated that out at one point, and $8,400 was several, I would say, dozens of months. I remember.

Mr. FRANKS. Madam Chairwoman, it takes basically to complete a foreclosure in this state 6 to 8 months if you follow the regular routine. It is four payments past due, then you have a notice of intent, then you have a posting and then you have foreclosure. Some can be done a little bit less, but I would say they average somewhere close to 6 to 7 months.

Miss KAPTUR. What I wanted to say on the notification to the VA by lenders, prior to my chairing this subcommittee, there was a proposal made well over a year ago that lenders would have to, let us say, notify within 60 days and that was through all of the national organizations that advise on these things.

The lenders say they do not really have to do that because 80 percent of delinquencies cure anyway in the first 90 days. So, why bother if there is a problem in the first 60 days. One of the problems with that is it sort of averages the whole country but it does not focus in on those areas where you have trouble.

So, presently, in our bill, there is not a requirement to notify within a shorter period of time.

Mr. **Franks**. I do not know whether it can be done legislatively, but I feel like that the lending institutions and the mortgage bankers and everyone have a responsibility and this is a matter of changing of attitude on the VA's part as well as the industry, that if we have got a problem, and VA is very guilty in the past of not really getting involved until it became three or four payments past due, but if we see a deserving veteran in the first month or the second month, if that was brought to our attention, I am the first one to agree that if we filed a notice of default within the first 60 days, we could not handle all the paper work with the resources that we have now. Just saying it very bluntly.

Miss **Kaptur**. You know, when I first assumed chairmanship of this committee in January of this year, I wanted to be the best chair this committee has ever had in Congress, so I set out to learn everything there is to learn about this program, when it started, what happened over the last 43 years, etc. So, I went to the Library of Congress and asked to survey all the studies that have ever been done on the VA, so that I could read every single dissertation ever written by a college student in this country on this program. Guess how many have been written? None.

And the last insightful article to be written about this program, which has housed 12 million American families, was written in 1952. I started thinking about this a little bit and realized the reason we have not thought about this program, and the reason we are only thinking of it as a guaranty program, and not as a program that now has 20,000 properties in our inventory, as a program that needs rehabilitation, because we have got properties that need renovation all over this country, is that the VA never thought of itself as an agency that had responsibility for anything else but a guaranty.

So, every small step we have to take, we are talking about changing the philosophy of the program. The problem that you are having, as you said, is that all we thought about was the front end of the loan, not the back end.

I serve on the other housing committee in Congress, governing HUD and FHA. We have thought about all parts of those programs, but this program has only been considered from one angle—and that is why we are having some of these bureaucratic problems.

We have a program that has come of age but our thinking about it has not come of age. We are going through that throughout the country now. So, we are not just blaming you. We are saying it is a problem in the system. That is why we are glad you are here today because we are all growing up together with this program and wanting to change it.

Mr. Franks, did you have anything else you wanted to say on what we should change?

Mr. **Franks**. No.

Miss **Kaptur**. Okay. But refunding would be at the top of your list. Can you work on some kind of informal notification from your lenders? Is there anything you can do locally here so that you find out—

Mr. **Franks**. I think it can be worked with an educational program, but it is a way of thinking that has got to be changed, as you said, over the years. For many years; inflation took care of all of us in the housing market. Now, we have got to change our way of thinking and look for more unique, more thoughtful ways to do this.

Miss **Kaptur**. I think with our $8,400 proposal, with the average loan amount being $50 to $60,000, you are talking about an additional 3 years, and if a loan has been in arrears for 6 months, there is plenty of room there for you to service that. You are saying no. Are you from the VA? Oh, okay. Is that wrong? Did I give the wrong numbers here?

Mr. Myatt, did you want to comment? If we could change anything, what would help you the most?

Mr. **Myatt**. We would like more personnel.

Miss **Kaptur**. Yes, we heard that. We heard that. Loud and clear.

Mr. **Myatt**. Well, unlike my two colleagues here, I am a lay person in this field, do not consider myself a professional in the loan guaranty area by any means, but, to me, the concept of additional servicing, which will require more help and require a real effort by this regional office, maybe even going into neighborhoods, setting up meetings under the auspices of an organization.

Mike and I have talked some about this, where we would actually take loan servicing personnel on an irregular tour of duty, bring them there at nights, and let them meet with the groups of veterans who are in trouble on the foreclosures and counsel with them. We are searching for some new and innovative ways to do loan servicing and to carry out what we have said we are going to do this next year.

So, changes in our loan servicing approach would be the thing I would change.

Miss **Kaptur**. Let me also encourage you with the incentives that are in our bill for non-profit groups, veterans organizations, city governments, to get access to some of these foreclosed properties and use veterans groups to rehabilitate them, working through Central Office. They are looking for innovative proposals around the country. There is plenty of room there for you to operate as well, and I know you have got a Texas Veterans' Commission here and other groups that could be involved in this. I would just encourage you along those lines.

I think you could help house a lot of people and probably rehabilitate a lot of the properties that your friends have taken the windows out of.

Mr. McReaken?

Mr. **McReaken**. We are looking at two major areas that we are going to be concentrating on this year. I realize it is not quite in line with what you have asked. I certainly agree with Mr. Franks and Mr. Myatt that refunding is a much more logical way to go because you take back, if you want to call it that, an occupied house, you have someone that wants to stay in it. But we feel that in addition to our servicing efforts, this change of attitude which has to come from within must also be dispensed throughout the industry, through the servicing personnel, loan counselors at the private mortgage companies, that need to know what our attitudes are, that we encourage forbearance, we encourage pay plans, we do not encourage a lender refusing to take partial payments as a matter of course, which happens so many times.

We end up acting as the intermediary for the veteran and we can work out a repayment plan, but this is something the lender should be doing on their own without our encouragement and help at all times.

We are also looking at our housing sales program. We have been putting off repairs on houses. Basically, we have taken the position that if it is repaired today, it is going to be vandalized tomorrow, and we will never have an opportunity to get that thing on the market the way Fannie Mae does. They are the best housekeeper in Houston, and that is because they repair their properties and they make them smell good with paint, they look good with carpets, and we are going to be looking at the same type of a program here throughout the region as best we can handle it with the staffing resources that we have.

Anytime we spend government monies for repairs and supervise that work that is being done, it is an awful lot of audits and checks, and we want to do it as best we can, as quickly as we can, so we are exploring some possibilities in that area.

Miss **Kaptur**. Let me just mention to you that the title of our bill for the first time in the history of the VA is the Veterans' Housing Rehabilitation and Program Improvement Act of 1987, and in the legislation, we authorize additional vendee loans to prospective purchasers of VA properties, foreclosed properties, as may be necessary to fix the house up. VA never regarded itself as being in the rehab business before, but we have exactly the same difficulty as Chicago and New York, Boston, Seattle. It does not matter. We have properties sitting there deteriorating, and, so, we are providing some policy focus at the national level, so you can do some of that rehab at this—

Mr. **McReaken**. Let me do it before your law passes.

Miss **Kaptur**. Good luck. You will make us look good.

All right. I would like to—Chairman Brooks, have you got any other questions? You do not. All right.

I would like to thank this panel very much for serving veterans of our country and of your community here, but also for your service to the VA during a very difficult period of time, when I know a lot of pressures are upon you to perform and we in the Veterans' Committee are working very, very hard to keep your funding levels at least even and not cut them further and trying to provide you the additional help that you need here, and it has not been with the cooperation of 1600 Pennsylvania Avenue, I will tell all of you.

We have had to fight for veterans in the Congress, and, so, we want to thank you for the hard work that you have put in all this.

Thank you for being here today.

Mr. **Myatt**. Thank you, Madam Chairwoman.

Miss Kaptur. I wanted to ask if I could call the next two panels together, and if the staff might help us set up two additional chairs on either side here.

We would like to call Mr. Jake Kamin, Chairman of the Board, and President of American Mortgage Company of Houston, accompanied by Mr. Allen Holton, Executive Vice President. Mr. Hugh S. DeWitt, President of Lomas and Nettleton, Texas Mortgage Bankers, from Dallas. Mr. William Glasgow, Jr., Executive Vice President, Lomas and Nettleton. Ms. Loraine Allison, Chairperson of the Houston Advisory Council to VA Property Disposition in Houston, and Mr. Allan Hancock, President of Hancock, Nichols and Associates/ERA, Houston.

Miss Kaptur. I also want to say to Mr. Dalton Smith of the Home Builders, we recognize wherever you are sitting that you have a three o'clock flight. We are going to try to proceed quickly with this panel, so that we can take you next.

If witnesses could stay within the 5-minute rule, we would greatly appreciate it.

Mr. Kamin, it is good to see you here in your home community. You will be our lead-off witness on this panel, and thank you for the time and effort you have spent in coming to Washington to represent the needs of this part of Texas.

STATEMENT OF JAKE KAMIN, CHAIRMAN OF THE BOARD, AND PRESIDENT, AMERICAN MORTGAGE COMPANY, HOUSTON, TEXAS; ACCOMPANIED BY ALLEN HOLTON, EXECUTIVE VICE PRESIDENT

Mr. Kamin. Thank you, Madam Chairwoman, Ms. Kaptur.

I am very honored and all of us in the mortgate banking business are, that you came down with your staff. Your group allowed us to meet with them for lunch yesterday, and I think we accomplished an awful lot.

I might compliment your staff and yourself for having a group that is very knowledgeable in this housing business and, of course, we are very honored that Chairman Brooks is here after spending days and days interrogating those who represent the future of the United States.

You know, our problem, as all of you have stated and especially you, Jack, summarized very well. The economy is very bad. We think the approach that has been taken towards curing the delinquencies and the foreclosures, especially by the VA, have not been to the best interests of the veteran.

The mortgage banker has been cast in the role with a black hat because the mortgate banker has the task of foreclosing and, yet, their hands are tied because there are certain rules and regulations that govern foreclosures. It is a costly venture as far as the average mortgage banking firm is concerned because they get caught with a so-called no-bid; and as it has been illustrated, out of 50-some-odd hundred houses that have been foreclosed, our staff has found that they have never been able to work out refinancing programs with the VA. Evidently, they are too busy.

The other side of the coin, the accelerated foreclosures, in our opinion, really destroy the values of homes around there. I will give you a quick illustration. When my wife and I were on a plane to New York or Washington one time, there was a stewardess on the plane and she made a remark that she is dumping her house because houses down the street like her house are about $20,000 to $30,000 less money. She does not care about her credit because she is not going to pay that excessive amount of money.

We think there are other ways to handle this foreclosure problem. We think there are ways of refinancing. As an example, we cannot take a loan out of Ginnie Mae and refinance it if it has been an assumed loan. Yet, the VA has paid no guaranty on it. They have not paid a loss. If we were allowed to take that loan and refinance with the guaranty still on it and be able to put it back into a Ginnie Mae certificate, chances are we would cut a tremendous amount of foreclosures, but this has never been allowed to us.

I am surprised that the VA has not reassembled these loans, refinanced the loans, lowered the rates and allowed the homeowner to stay and the VA taking that loan and either selling the servicing back to a mortgate company and putting it back into a Ginnie Mae certificate, eliminating most of the costs that the VA has.

Right now, they are, by their own testimony, they are taking $40,000, $50,000, $60,000 homes, and selling them for $14,000. It simply does not make sense and we understand the desecration of these properties, but we have a difficult time in appraising a brand-new home that the home builder is building because down the street or down the road, it has a $15,000 or $20,000 price and that new house costwise may be $50,000. So, what does he do? He goes out of business.

This thing keeps compounding itself. It is our feeling that for mortgage companies to survive, to handle these loans, they cannot keep taking these losses. They cannot keep having the black hat. The image of that one who will foreclose and take my home away. That is not the role of the mortgage company. They do not want to do it.

I know our staff has been trained to work any way possible with any delinquent customer, much less in the VA, but in the case of the VA, we have testimony whereby they were told, work it out yourself, we cannot handle it. Well, what can we do? That loan is a Ginnie Mae certificate. We cannot take it out and refinance it. We have to pay the points and if we reduce the rate from, say, 12 to 7 percent, who is going to pay the difference? The VA has turned its back on us, at least that is the information we have gotten.

What are some of the things that we can do and what are some of the things we need? I have on my own advocated that we have a 24-hour moratorium on no-bids. Another member of the mortgage banking industry advocated or suggested that if we had no-bids and we had a moratorium on it, those companies that were able to avoid the no-bid could take those houses and keep them in good shape, maintain them and sell them in an orderly fashion through the regular realty operations rather than the auction sales.

We think the auction sales are devasting. We think it has no regard to the equity that people have built in their homes, and we are developing, in our opinion, a mobile society. Besides breaking companies like ourselves, how much longer can we do it?

I know I am about to run out of time. I have asked Allen Holton to come up here, he is the technician of our company, to add anything more to what I have said. I cannot cover a lot of territory in these five minutes, but we think we have done it in the presentation we made to you May 13th that we mailed to you.

I might ask Allen if he has got any comments.

[The prepared statement of Mr. Kamin appears on p. 89.]

Mr. HOLTON. At this time, I think that rather than take more of the committee's time in testimony that we would prefer to respond to questions which may be directed to us by the subcommittee in that regard.

Ms. KAPTUR. All right. What I would like to do is to proceed through the witnesses, if we could, and then to take questions of the entire panel.

Mr. DeWitt, did you have anything that you wanted to say?

STATEMENT OF HUGH S. DE WITT, EXECUTIVE VICE PRESIDENT, LOMAS AND NETTLETON COMPANY; PRESIDENT, TEXAS MORTGAGE BANKERS ASSOCIATION, DALLAS, TEXAS

Mr. DEWITT. Yes ma'am. I do have a statement I would like to make.

Ms. KAPTUR. All right.

Mr. DEWITT. By the way, I am the Executive Vice President of Lomas and Nettleton Company and when my boss sees this that I am President, but I appear here today as the President of the Texas Mortgage Bankers Association, and we would certainly like to express our gratitude to you, Madam Chairwoman, and members of your subcommittee for taking the time and interest to come to Texas and hold the hearing on the operation of the VA Loan Program in our State.

That initiative reflects an important awareness of the significance of our problems and the need to take legislative action to combat them, and we certainly also welcome the presence of Congressman Brooks.

The Texas Mortgage Bankers Association, known as TMBA, is a trade association comprised of more than two hundred members, companies, engaged in the various facets of real estate finance in Texas. Not all member companies participate in the VA program. What happens is VA loans in Texas inevitably affect all real estate mortgage lending in our state.

Our entire industry is concerned. I previously submitted a statement of the position of TMBA on the present VA no bid policy. It is that policy and the related dumping of its housing inventory by the VA that has resulted in a forced deterioration of all residential housing value in Texas, especially in the Houston market.

You are familiar with the pre-1984 practice and the changes that resulted from a deficit reduction act of 1984. I would note the stark contrast between the policy the VA followed for forty years, which both veterans and lenders came to rely on, and the present policy.

Historically, the VA submitted a no bid on only approximately one percent of its foreclosed loans. This year, the VA reported approximately a twenty percent no bid activity nationally and it is even worse in Texas, with twenty-five percent and thirty percent experienced in the Houston area.

While our economic problems have been a causal factor in that experience, the new policies and new formula mandated by the 1984 act has been a primary reason for this increase.

Veterans' are losing more than their homes by the driving down of values with this policy. The foreclosure usually results in a substantial deficiency which the VA and lenders must pursue. If a deficiency is forgiven, the veteran has another problem. He or she is liable for income tax on constructive income. Then, there is the additional impact on the veteran's credit rating and his or her ability to borrow in the future.

This is a shabby way to repay our veterans for their service to this country. The purpose and intent of the VA program was to provide home ownership for our veterans. The present operation of that program is obscuring its past successes and resulting in putting veterans out of their homes with a still-existing debt burden or requiring them to pay taxes on money they never received and ruining their credit rating.

Immediate action is necessary to combat this problem. The TMBA supports the solutions advanced by Mortgage Bankers Association President Tom French before the subcommittee on June 23. We believe that a no bid formula should be adopted that would reduce the administrative cost factor to no more than seven and a half percent and would limit the amount of accrued interest that could be included in the formula to ninety days.

Other corrections spelled out by President French's statement and in our written submission would alleviate some of the problems for the veteran borrower.

Ms. **Kaptur**. Mr. DeWitt, you can submit your entire statement for the record, if you want to summarize.

Mr. **DeWitt**. I will do that.

It is essential that the dumping of properties on the market by the VA stop. This would--the VA should return to an orderly liquidation of its property inventory, even if it takes longer time and results in a retention of the inventory for a greater period.

We appreciate the opportunity to appear before you, and we will stand ready to help you in any way that we can.

[The prepared statement of Mr. DeWitt appears on p. 95.]

Ms. **Kaptur**. Thank you very much.

We appreciate that. Right in time for the bell.

Mr. Glasgow, did you want to add anything to that testimony or would you prefer to wait for questions?

STATEMENT OF WILLIAM GLASGOW, JR., LOMAS AND NETTLETON, VICE-CHAIRMAN, SERVICING COMMITTEE, MORTGAGE BANKERS ASSOCIATION

Mr. **Glasgow**. Madam Chairwoman and Chairman Brooks, I do not represent the TMBA here. I represent Lomas and Nettleton and the National MBA as vice chairman of the Servicing Committee, and I do have just a few comments.

Rather than read verbatim my statement that I have already filed with this committee, I would like to start off by saying that looking at L&M's exposure alone, we have 45,000 loans in Texas, 8,000 of which are in Houston alone. Conceivably, if the VA no-bid situation should continue to increase and at least report through the TMBA was 30 percent no-bid, we could conceivably this year alone have to set aside about $3.5 million in reserves.

I made several pointed statements towards the prevailing practice of dealing with the VA. I must admit after listening to the VA representative today, I am a little bit more empathetic towards their situation because if you take into account the 39 people that they indicated they have in servicing, that number should be more like a 120 people, if you compare our department, which is struggling to manage 1500 REOs with 31, and they have a myriad of other responsibilities aside from marketing; 39 people seems a little bit ludicrous.

Basically, I would like to take a minute just to respond to a few of the questions that Madam Chairwoman raised, and that is, the $8,400 support for temporary assistance. While I cannot speak for all of the mortgage bankers, I would think you will find that we would support and look forward to that type of relief for the veteran, but waiting 6 months could really be waiting too long.

It is our job as lenders to identify candidates that are deserving of some type of relief and it is our job to do that within the first 60 days of default. We have made a concerted effort over the past couple of years with this increase in the VA no-bid problem to figure out any remedy to that customer well in advance of 6 months of default. So, that would be the first comment that I would make.

With regard to refunding, refunding as you would find in the HUD program would take the people who administer the loans that you would transfer to the VA, and from what I heard this afternoon, I doubt that resource is there, but I would like to stress compromise sales.

L&N has proven over the past year and a half, working with the private sector, that compromise sales, when you know that there is not sufficient value in that asset, is a remedy for both the veteran, the lender and the VA, in the sense that if you identify early on in the delinquency process that we could compromise and have a discounted pay-off, the VA would be in a position to pay a portion of the guaranty. In that instance, everybody wins.

Finally, there is some concern over the bureaucratic process we go through in terms of dealing with the delinquencies. We have stressed for years that we should not have to wait thirty days for a notice of default to run its course before beginning foreclosure and filing the notice of intent. I know the VA has relaxed that requirement, but it really seems that, in many instances, that if we know the property has been abandoned, that even waiting a 105 days is not the right measure, and I think the VA's position on that is that we could proceed.

In terms of forbearance, L&N, like many other lenders, has taken the lead to give its collectors, and we have to shove this all the way down to the lowest level, the benefit of forbearance plans, meaning that it is not calculated in the delinquency rate. The problem is still that if you give the veteran the benefit of the forbearance plan, you are faced with the same situation that we talked about here this afternoon, but in all likelihood if the loan does go into foreclosure, well, it is a fact, you do not get credit for that forbearance help.

In other words, the interest accrual is based on the first default date and not when you entered into the forbearance arrangement and does not take into account any subsequent payments received therein.

Statement concluded.

Miss KAPTUR. Very good. Very precise and to the point. Very enlightening. Thank you, Mr. Glasgow.

I would ask Ms. Loraine Allison.

STATEMENT OF LORAINE ALLISON, CHAIRPERSON, HOUSTON ADVISORY COUNCIL TO VA PROPERTY DISPOSITION, HOUSTON, TEXAS; ACCOMPANIED BY GLORIA LEDER

Ms. ALLISON. Madam Chairwoman, Chairman Brooks and guests, on behalf of the Houston Advisory Council to VA Property Disposition, I want to welcome you to Houston.

It is gratifying to our delegates that a congressional subcommittee has seen the urgency of the foreclosure crisis in Texas and specifically in the Houston VA Regional Office, and has responded by making the effort to come to Houston for a closer look.

We appreciate the second opportunity to present our views on the problems of the Houston Loan Guaranty Office. As you know, our council is comprised of four delegates from four organizations of real estate professionals, who are made up of the members from the Houston HUD Brokers Association, the Houston Board of Realtors, the Houston Real Estate Association, and the Houston Hispanic Brokers Association.

To give you an update on the problem of the staffing shortage in the Loan Guaranty Office here in the Houston region, when we last spoke to this subcommittee at a hearing in Washington on April 22nd, we talked about the steady stream of foreclosures coming into the Houston VA Regional Office at an average of 356 properties per month.

To bring that figure current through April, May and June of this year, our new monthly average of about 360 properties per month shows that there has actually been an increased influx of properties in the past 3 months.

On page 7 of my statement, there is a bar graph which demonstrates that in recent months, the total number of vacant properties in Houston owned by the Veterans' Administration has continued to remain close to 5,000, and to be more exact, if you include the properties to which they are now seeking to acquire title, there is a total of 7,826 homes now either in the ownership of the VA or about to be. So, the problem has not abated, and I think everyone at this table knows that.

Our Advisory Council's major objective has been to set VA's—study their existing sales program of the properties and to make recommendations to improve their sales. To this end, we have dedicated much time over the past 1 year and recently, on July 2nd, our primary objective was met when the new public bid opening system was set into motion.

This marketing method encourages competitive bids and drives sales prices up. A graphic example of that is at yesterday's regular weekly public bid opening. There were a number of properties offered for sale that had been shown by our brokers for the past 10 days. Seventy-five of those properties were bid on. There was an average of four and a half offers per property sold, and many of the offers were ten to fifteen and sometimes higher, thousand dollars over what the VA had listed that property for.

We believe that what we have been working for and have now implemented with the help of the Regional Office here, the public bid opening system is going to be a lot of the answer to the "dumping of properties" that has occurred in the past.

I want to say right now that this Council has always been opposed to any government agency auctioning properties, especially through an out-of-state auctioneer. This drains funds off from Texas and a live auction, such as has occurred mainly out of desperation, as I understand it, in the past, to move properties, is a poor way of marketing those properties.

The changes that we have worked together to create in this region have not come easily. There have been many barriers on the local level and the federal level of the VA, but, nevertheless, public bid opening system is now a fact and we are proud of that.

We asked for your support in April in obtaining 27 additional staff members and also computer equipment and overtime and contract monies. We have the computer equipment in place now that we needed. We have overtime and contract money as the VA office here has indicated, and with the supplemental appropriations bill which we understand was recently passed, am I correct in that, we have been informed by the Regional Office that there is money available to hire the staff that we have asked for, the 27 additional employees.

They have not begun to hire due to concern over availability of funds in the 1988 fiscal budget to retain the new employees that they may hire. We have been told this. We urge you Congressmen to support allocation of funds for the next few years so that we can continue to keep this staff up. We need these 27 people very badly.

The early results of the new public bid opening indicates sales of about one hundred properties per week, and the Council believes that will increase rapidly as the sales force and buying public realize they may now depend on a standard procedure administered even-handedly.

The seven loan processors currently employed can not handle the six to eight hundred cases per month that the Council anticipates. As a matter of fact, at this moment, there are 873 loans in process, a backlog which loan processes cannot overcome without help.

There were four other areas which are in my statement that we are very concerned over and are issues that have come up today. Briefly, because my time really is up, forbearance, the Council is 1,000 percent for encouraging forbearance, also refinancing at lower interest rates at no cost or little cost to the veteran, and we would just generally say we are not the experts at this table in that area, but we would encourage the Veterans' Administration to devise a motivating factor to reward lenders who choose to aggressively participate in forbearance and in low-cost refinancing.

We do not want to see foreclosures continue at the rate they are, even though we sell them. It is bad for Houston.

Secondly, we—it is like the concept of the no-bids system and for a number of reasons, which I have indicated in my statement, we believe that VA in the past in a rising market has made a profit, as Mr. McReaken indicated, has been the case in years past here. They are foregoing that possibility when they go to an automatic no-bid system.

But, most important, we feel that no-bids threatens to eliminate the veterans housing benefits completely. The VA's no-bid system saddles the lender with the risk of loss above the guaranteed amount if the lender cannot sell the property for enough to cover the difference between the outstanding loan balance at the time of the foreclosure and the guaranteed amount.

Lenders are already finding it more and more difficult to sell VA guaranteed paid for the secondary market. Council believes no-bids will take away the veteran's source of home loans in a short period of time because investors on the secondary lending market will find themselves in possession of properties thousands of miles away from their headquarters and will face unwanted complications in disposing of these properties. We see this as a lessening of veteran's benefits and a major threat to the veteran in getting his home loan.

We are also opposed to increasing the number of cash sales thereby decreasing the number of vendee loans. We believe that if this occurs and there are more cash sales required, the VA will have to go into a wholesale rehabilitation of their properties because they will now be competing with everyone in town. They have certain advantages in the vendee program which they will eliminate and they will begin to have to rehab their properties much more extensively than they are now doing.

And, lastly, we encourage Congress to continue with the fixed interest rate, which is now employed. There has been some discussion and we have been asked to comment to Senator Cranston's committee on the Senate side about that, and we believe that it is working, do not fix something that is working. It is already there. We do not see a problem with it. We like the fixed interest rate for the VA program.

[The prepared statement of Ms. Allison appears on p. 106.]

Miss KAPTUR. Thank you, Ms. Allison. Very articulate and you did just as good a job here as you did in Washington. You are a very effective spokeswoman for your community.

Ms. ALLISON. Thank you.

Miss KAPTUR. And for your industry. The woman that has accompanied you, could you please identify her for purposes of the record?

Ms. ALLISON. Yes. This is Gloria Leder. She is another delegate to the Advisory Council and is on the HUD Brokers Association Group on that council.

Miss KAPTUR. Thank you very much, and let me just compliment you and the Advisory Council for what appears to me to be an excellent working relationship that you have established with the Veterans' Administration and have put together a real effort here. We talk a lot in Washington about public/private partnerships, and this certainly seems to have been a benefit on both sides, and that is due to your leadership and I am sure all the people that serve on the Advisory Committee.

Ms. ALLISON. Thank you.

Miss KAPTUR. And, finally, Mr. Hancock.

STATEMENT OF ALLAN HANCOCK, PRESIDENT, HANCOCK, NICHOLS AND ASSOCIATES/ERA; VICE-PRESIDENT, HOUSTON BOARD OF REALTORS

Mr. HANCOCK. Thank you, Madam Chairwoman and Chairman Brooks.

I have filed a report with your committee and I will try to whip through it briefly.

Miss KAPTUR. We would appreciate that. Mr. Brooks has another engagement and will be leaving at around 2. So, I am hopeful that we can get through the testimony so he can ask some questions.

Mr. HANCOCK. I will try not to be redundant. Many of the points that have been made here today are also included in my recommendations.

I would like to share with you a little about the Houston market that may be a surprise to you, though. Contrary to popular perception, Houston, in my opinion, began a healthy recovery in its housing market in September of last year, and we have shown steady increases and significant increases every month since that time, according to Houston Board of Realtors statistics. And, incidentally, I am speaking in the capacity of the vice president of the Houston Board of Realtors, not as a real estate company owner, although I am in both roles.

Latest information from the Multiple Listing Service shows that June of 1987 struck an all time record with 3,044 total closed sales. This, in fact, is contrary to the national trend which saw June sales drops of 6 percent from the prior month while Houston, in fact, increased 11 percent. So, our sales—that, incidentally, was the third all time record-breaking month for Houston Board of Realtors closed sales.

In other words, April was our first all time record- breaker, May broke that record, and June broke the May record. So, we are selling homes in Houston, and I think it is important that some of these discussions are put in that perspective. There are homes being sold at a very significant rate in Houston, Texas.

The negative sign, of course, is the foreclosures do continue at a very high level. However, in this brisk market, we would like to make a point that there is no reason why the Houston Regional Veterans' Administration Property Disposition should not be participating at a higher level in the sales that are going on in Houston.

Marketability of homes in Houston has been a problem. Sellers, in general, and particularly the VA, need to be more competitive. They have become considerably more so in my opinion with the assistance of the Houston Advisory Council, which has been discussed at some length today.

Brokers have been reluctant to participate in the sales program, many of them are just becoming aware of some of the improvements in that program, but there are about 4,000 brokers who are authorized to sell and participate in the sales of VA homes here. Many of them, however, have not wanted to sell them because the status of the property is often inaccurate, sometimes the houses are in deplorable condition, communicating would be, was and still is a very difficult process at best.

Again, I am empathetic to the fact that they have a very minimal staff, but communication is unbelievable, has been unbelievably restricted and difficult, and homes, of course, were often priced above comparable levels.

We do think the Advisory Council has done a good job. The public bid opening is certainly a significant step and we are selling more houses already. One of you mentioned earlier or questioned earlier why more sales in June, I think you can see the VA sales do reflect somewhat of what is going on in Houston and in the general market.

Some of the remedies that are already in place are in my report and I will not review them. I do think that more things could be done. There are now seminars for realtors going on, though, and VA is beginning to institute some of the very positive programs that HUD has successfully up till now.

Veterans' are continuing to lose their homes at a distressing rate, obviously. We are certainly supportive of your programs and your legislation proposed to try to accomplish change in that respect. Obviously, a lot of veterans are still hung with high interest rates from the high inflation period of the early eighties. It has been alluded to that they cannot do much about that, it is a Ginnie Mae pool, they cannot be refinanced, etc., but we think anything that your legislation can do to create an aggressive refinancing program for veterans, they could bring their rate more in line with current rates, would be helpful.

Also, we would support forbearance agreements, maturity extensions and, for that matter, loan balance adjustments. We would like to see refinance options, though, particularly at low or no cost to the veterans. That certainly would be beneficial to anyone involved.

We certainly second the idea that the Veterans' Administration needs more staff here, and I think that has been well pointed out. VA has some significant advantages over HUD. We know it is possible for a government agency to sell homes aggressively and effectively in Houston because HUD does it. Their sales record is a good example of cooperation between a government agency and the real estate community.

VA, actually, with their vendee loan, in which the interest rate is locked in at the time of the loan, is an advantage over HUD. They also offer an expedited sale now, so they have advantages over HUD, yet they are not nearly as effective in actual sales as HUD.

We do think if our market continues at its boom rate that it is going at right now, and if VA will make some of these changes, we can significantly impact their inventory.

Finally, our almost 9,000 members of the Houston Board of Realtors is responding to a very difficult situation and we appreciate your help in looking into this and anything that we can do to be supportive of helping the veterans to keep their homes and also property disposition, we are certainly there to do.

One final comment. I have enclosed a graph for you that illustrates the sales rate in Houston of 1987 versus both 1986 and 1985. We have actually had to modify the charts, the graph, in recent months to accommodate the upswing.

Thank you for your time.

[The prepared statement of Mr. Hancock appears on p. 114.]

Miss KAPTUR. Thank you very much, Mr. Hancock.

I want to thank everyone on the panel. This is going to be a great discussion. So, we are going to settle in here for a little while, if the audience will bear with us.

Mr. Brooks.

Mr. BROOKS. Thank you, Madam Chairwoman.

Mr. DeWitt, what is your perception at this point, given the problems that exist in the area, as to the continuing viability of the VA Home Loan Guaranty Program?

Mr. DEWITT. It will be damaged without a doubt, Congressman Brooks. Some lenders have already started requiring some down payments from veterans and that is not the original intent. A lot of us are looking at pricing the Veterans' Administration loans differently from the FHA loans, even though they may be the same rate, because of the financial risks involved.

I think the VA loan is going to be harder to get for a veteran in the future.

Mr. BROOKS. Mr. Glasgow, what do you think about that? Any comments on that subject?

Mr. GLASGOW. Since we are both in the same company, I know what has been discussed in our meetings, and I feel the same way. We have already cut back substantially in certain areas with regards to our VA production, and the things that Mr. DeWitt just referred to that we may impose would negatively affect the veteran, at least, from the standpoint of having access to those funds.

Mr. BROOKS. Mr. Kamin, what do you think about this?

Mr. KAMIN. Well, we have quit making them.

Mr. BROOKS. That is what you think. All right.

Mr. KAMIN. Yes. Entirely too much risk. We cannot stand the no-bid situation. We cannot stand the long indefinite time period that is put upon us before we can foreclose or get our money back from the VA, and it causes us to have to raise additional capital to handle these loans. After all, the VA approves these loans. They did the underwriting. We are supposed to step in there and bail them out.

Mr. BROOKS. They do not want that right.

Mr. KAMIN. No. They do not want that right, and we cannot as a mortgage operation, we cannot finance it. So, as of now, we are doing all the refinancing that we can do of loans that are in a 12–13 percent bracket to save that loan from a foreclosure, but we are caught with all of these assumptions that over half of the portfolio, I would venture to say, of every mortgage company, is loaded with assumptions and what are they going to do with those loans. They have no equity and they have been desecrated as a result of the programs that are going on. So, they are looking at the gun barrel.

Mr. Brooks. Now, Mr. Kamin, would you please explain why you said earlier that you believed the loan guaranty formula should be 60 percent of the mortgage amount or $40,000 rather than the proposed 40 percent and $40,000?

Mr. Kamin. Yes. By testimony of the VA, the average loan is $50-60,000, 40 percent of even 60,000 obviously is $24,000. Right now, it is 27,500 and we are loaded with no-bids.

Well, it would be impossible to keep from having no-bids when you lose an additional $3,000. Then, from an appraisal standpoint, every time the VA breaks that price range further down, that means that appraisal comes in at a much lower figure and, so, we come in with a value of—a $60,000 house may come in with a value of $35,000. You load back the interest that you have had to carry as a result of VA program and demands, it is impossible to keep from having to take the house back.

Nobody is structured financially—even L&N cannot stand this, as big as they are. They would go broke. We cannot step up to the till and do something that we were not prepared to do in the first place.

Mr. Brooks. And you could not do that for 30 years.

Mr. Kamin. That is right, and, all of a sudden, we are asked to do things. I am just speaking for myself. We think that there may be a purpose in breaking that price range down.

I also want to tell you, Mr. Chairman, that the sales to these investors on a number of these VA houses for rental purposes are going to come back to haunt the VA. When the rentals run off, what are they going to do with those houses? We are already foreclosing houses like that.

So, they are going to be back on the market again, except they will be definitely desecrated, but what is going to happen afterwards? What are they going to do with that inventory? Who do they look to?

Mr. Brooks. Mr. Glasgow or maybe Mr. DeWitt, do you think the lenders will without a lot of hesitation extend credit to veteran borrowers in the Houston area on a 100-percent loan basis? What do you think, Mr. DeWitt?

Mr. DeWitt. I do not think without hesitation. I do not think they will, sir.

Mr. Brooks. With hesitation.

Mr. DeWitt. With a good bit of hesitation.

Mr. Brooks. Cannot shake that economy a little bit?

Mr. DeWitt. If the economy starts picking up, we forget pretty soon, I am afraid, as we have demonstrated in the past, that we will get ourselves in another trap that we are in right now if we do so.

Mr. Brooks. Do you think that the Veterans' Administration has been evenhanded in administering the Home Loan Guaranty Program in the Houston area, where we have about 30 percent on the no-bid basis and it is 25 in the State and 20 nationwide?

Mr. DeWitt. It seems it has been titled in the favor of the administration of the Veterans' Administration as opposed to the lender by adding on administrative fees and, in fact, we are using factors that we think are unrealistic.

Mr. **Brooks**. Lomas and Nettleton is one of the biggest mortgage bankers in the United States. What are your total values in there? What is the indication of the size? How big is that, so people get an idea of just how big Lomas and Nettleton is?

Mr. **DeWitt**. We are servicing about $22 billion worth of mortgages, and my guess is about $6.5 billion of that is Veterans' Administration. $6.5 billion.

Mr. **Glasgow**. $6.5 billion is VA loans, guaranty loans.

Mr. **Brooks**. $22 billion total.

Mr. **DeWitt**. Yes, sir.

Mr. **Brooks**. So, you would be one of the deep-pocket mortgage bankers.

Mr. **DeWitt**. On the surface, we are that, sir.

Mr. **Brooks**. And it still creates a problem, this no-bid list.

Mr. **DeWitt**. The no-bid list—

Mr. **Brooks**. For your percentage of loans down here would still be a problem for you.

Mr. **DeWitt**. Very much so.

Mr. **Glasgow**. Chairman Brooks, no company can sustain a 30 percent no-bid situation for too long.

Mr. **Brooks**. No company can.

Mr. **Glasgow**. No company can.

Mr. **Brooks**. In your written statement, Mr. DeWitt, you say that the integrity of Ginnie Mae securities is being threatened by the massive number of no-bids. Would you elaborate on that?

Mr. **DeWitt**. Yes, sir. When a loan goes to foreclosure, if that loan is in a Ginnie Mae security, the issuer, who is the lender, the mortgage banker, must purchase that loan out of that security, pay the interest through to the security holder.

Then, the mortgage banker or lender has a problem of financing this delinquent or foreclosed loan, and it is awful difficult to finance something like that unless you are king of the roost; and if you do many of them, you will not be the king of the roost anymore, and the banker will not go along with you.

We simply do not have the capital to finance those out of our pockets and, so, what we are saying is the lenders are not going to be able to buy them out. That encourages them to do some things that they are not supposed to do, but sooner or later, the Ginnie Mae will have to come in and make those securities good.

Mr. **Brooks**. Themselves?

Mr. **DeWitt**. Right.

Mr. **Brooks**. Because the lenders will not be forever able to underwrite that tremendous cost.

Mr. **DeWitt**. That is true.

Mr. **Brooks**. Mr. Kamin, would you expand on the request you made in your statement for assistance in developing a program whereby restructured VA mortgages could be used for security in future Ginnie Mae mortgage-backed programs?

Mr. **Kamin**. Yes. Well, the VA, instead of the mortgage company buying that loan out of the security, the VA would buy the loan and recast the rate. Let us assume that rate is 12 percent and let us assume that the buyer or the borrower can stand a 7 percent rate, there may be a 5 percent difference in the rate, we think the VA could very well subsidize that interest on that loan and allow that loan to be put back into the Ginnie Mae program perhaps even selling that servicing and picking up a point or point and a half, whatever they can get for it, which means income. They would have eliminated a cost investment in the loan.

They would have had a small upstreaming, which has been done on other government programs, a small upstreaming of interest to the loan, but here is what they have accomplished. They have quit desecrating projects, subdivisions. They have got a home that is being maintained. Vandalism and every other type of law- breaking device somewhat is subdued, and you have got a homeowner.

Right now, you kick him out. Right now, we are the bad boys and, yet, the public does not know we cannot control it. We think that the amount of money that the VA by their own admittance is losing, the taxpayers' dollars is losing, in taking a $50,000 loan and selling it for $14 or $15,000 is absolutely unreal when it did not have to be that.

By their own admission, they have got 17,000 foreclosures. Is that what they have in this area? I think so. Well, take 60 percent of that value. I do not know how many dollars that will amount to, but I will assure you, Mr. Chairman, that it will not be near the amount of money as compared with a refinancing program where they recast it in a brand-new loan, sold that paper back into a Ginnie Mae program, allowed them to get out of it and, after all, 5 years' time, that loan rotates out, for 7 years, it pays off. It does not run for—the average is not 30 years. It pays off in 7 years or 8 years or gets refinanced or resold.

Mr. BROOKS. That is a billion dollars worth of housing, Jake.

Mr. KAMIN. Well——

Mr. BROOKS. $5 billion worth at $60,000 a crack.

Mr. KAMIN. Well, then, you can take—

Mr. BROOKS. That is a lot of——

Mr. KAMIN. $5-$6-$700 million worth of losses right now. That does not account for what DeWitt and Bill say that we are going to encounter later on, and there is not going to be a program left for the veteran and they deserve better.

You know, we would not have made a no down payment loan in the first place if we thought we were going to have our backs against the wall. We counted on a government piece of paper, and I am disturbed that with over 50 percent of the loans that now are purchased by other than the veteran from the veteran because the veteran has been encouraged to sell that house, do not let it go to foreclosure.

Now, when that person comes in and wants that loan refinanced and it is in a Ginnie Mae pool, we cannot do it. It is a non-guaranteed loan because it is not guaranteed by the vet. It is a non-equity loan. There is no one out there that is going to finance it. So, what happens? It becomes a no-bid or the VA takes that loan over.

Why? Why should they have had to take that loss? Nobody should have taken the loss. Maybe we would have had, I do not know, ten or 15 percent of foreclosures, 20 percent. By his testimony, he says housing is pretty good. I know it is good in areas that have been maintained, planned areas. I have developed a lot of areas. We developed Nassau Bay and Sugar Creek. I am very well aware of what is takes to keep a project going.

I know these tract areas that the low income vet buys. I know he cannot afford anymore, and it has been destroyed for him. We have water bonds that are in default. What are you going to do about that? Municipal governments now are in trouble. I have not talked to a builder yet, but we would not make a construction loan on concrete and the development of streets when you cannot even get the new house appraised for what it costs.

Mr. BROOKS. Well, our drainage districts and our water districts, our school districts are all based, Miss Kaptur, on the real estate value within the districts.

Mr. KAMIN. That is right.

Mr. BROOKS. And it is a very critical part of the government of our communities.

Mr. KAMIN. And, then, Mr. Chairman, I do not want to hog the time, but we have advocated, getting back to these auctioneers that come down here, certainly it is a free country, but we have got a lot of people in the real estate business that make their living selling a house and representing that home buyer, and I think they are entitled to a position in this thing.

Mr. BROOKS. Thank you, Madam Chairman.

Miss KAPTUR. Thank you very much, Chairman Brooks. We sure appreciate the time you have given to this today and I know you put a lot of extra time—

Mr. BROOKS. I will dance at your wedding.

Miss KAPTUR. And you will be invited.

Mr. BROOKS. How is that project coming?

Miss KAPTUR. Progress.

Mr. KAMIN. Madam Chairman, excuse me. May I be sure he gets a ride, and I will be right back?

Miss KAPTUR. Yes, absolutely, absolutely. We are going to continue on with the questions here.

Mr. Hancock, I wanted to ask you just for my own interests, how many realtors are there in the Houston area, the—

Mr. HANCOCK. Realtor would imply a realtor member of the Houston Board of Realtors. There are approximately almost 9,000 members.

Miss KAPTUR. 9,000. How many of those realtors would trade in VA properties? How many actually sell VA properties?

Mr. HANCOCK. There are 4,000 authorized VA brokers, both in and out of the Houston Board of Realtors system, and those would reflect a substantial number of agents in addition to that. So, potentially, I do not know, 10,000-12,000 people perhaps, because there are more real estate agents than there are realtor members. In other words, there are more licensees, far more licensees.

Miss KAPTUR. I see. I have talked to a lot of realtors in my own community inquiring why they did not involve themselves in the VA program and they said basically because of points and the way the program actually filtered down locally. It became cost prohibitive to participate for the borrower, and I was just interested in the way points were assigned here and some of those closing costs that people were talking about or the way that—

Mr. HANCOCK. As far as initiating new loans, the VA program is actually very easy to administer. So, we are talking about two areas here. Whether we are talking about creating a new loan on any property for a vet. That process is quite easy. I think most realtors are responsive to it.

Miss KAPTUR. Are points charged here in Texas on that?

Mr. HANCOCK. Points are charged to the seller under the VA program. The vet does have some fees, funding fee, for example, but they are not extraordinary fees.

Miss KAPTUR. Is it competitive with other mortgage—

Mr. HANCOCK. It is, it is.

Miss KAPTUR. Really.

Mr. HANCOCK. It is competitive, but property disposition is the area that is really of more concern from a negative standpoint, I guess. That is, realtor participation on it. The prices are low again, communication problems, etc. It is a very tedious program to work with.

On the other hand, there are a lot of these same brokers who sell HUD properties every day very eagerly, and HUD, in fact, has courted the brokers' community very nicely and has done a very excellent communications job with us.

Miss KAPTUR. Is it easier to work with them, do phone calls get returned, you do not experience the delays and so forth that you do with the VA, correct?

Mr. HANCOCK. Correct.

Miss KAPTUR. We are going to check, Ms. Allison, on your statement that twenty-seven additional staff have been assigned to the servicing side here. In the budget that we provided in the supplemental appropriation, there were monies provided but not specifically for that. So, it is an administrative decision at Central VA as to how staff will be allocated, and I am not quite sure where that is in the whole pipeline.

But I want to know the answer to that myself because it appears to me one of the things that the VA has not done, for whatever reason, is for those parts of the country, like this one, that are experiencing additional pressure, the response has not been forthcoming from the administrative sides. These people have been left to fend it alone down here for an awful long time.

Mr. Glasgow, I wanted to ask you. Could you tell me a little bit about the terms that you are offering today compared to 5 years ago?

Mr. GLASGOW. Terms from what respect?

Miss KAPTUR. For conventional loans.

Mr. GLASGOW. Well, let me defer to Mr. DeWitt if you are talking about new production. Is that what we are referring to?

Miss KAPTUR. Yes.

Mr. DEWITT. Five years ago, my calendar is not all that accurate——

Miss KAPTUR. Well, I thought you could just look at the trend for VA loans.

Mr. DEWITT. Comparing VA's with conventionals over a period of—over a time period? They tracked pretty well, I think.

Miss KAPTUR. Do they?

Mr. DEWITT. There is a spread. Typically, the conventional loan gets a higher rate because it does not have the government behind it. Typically, it has either a sizeable equity or it has a private mortgage insurance guaranty on a conventional, but the VA loan along with the FHA loan over the years has gotten to be a standard commodity that can be packaged in groups and sold in securities, and the rates, as they have gone up and down, the yield requirements in mortgage transactions generally, conventionals have been a little higher, the FHA/VA is a little bit lower, but they have maintained the reasonably constant spread between the two over a period of time.

Miss Kaptur. I understand that some lenders require 10 percent down payment. Is that true?

Mr. DeWitt. As a matter of fact, our own company has done that to some extent in this particular area. This particular geographic area. We are re-examining that on the basis of the guaranty, what percentage is the guaranty of the total loan, so that if you are in a bigger loan, in other words, you have gone through your $27,500 guaranty, then that is when we would start requiring equity to offset the lack of guaranty.

Because we are seeing a diminishment of value in this particular area that runs as much as 50 percent in some cases.

Miss Kaptur. We drove by one of those places today. It was a VA house. It was just conventional housing that had depreciated from $80,000 to $40,000.

Mr. DeWitt. That is a sad situation for an owner who is trying to maintain that house and make his payments and he knows he will never get it back in Houston.

Miss Kaptur. Mr. Kamin says he is not making any more loans. What about your loans?

Mr. DeWitt. We are making them.

Miss Kaptur. You are still making them?

Mr. DeWitt. We are currently and I am not speaking now for the Texas Mortgage Bankers now, I am talking about our company. We are considering a price differential between FHAs and VAs because of the additional risk under the Veterans' Administration.

Miss Kaptur. Will the removal of the cap up to about a $160,000. Will that help you in this area for the $40,000 guaranty?

Mr. DeWitt. With the $40,000 guaranty. I only briefly looked at the two versions of this bill, and I have forgotten. One is $40,000 and then one of them is 40 percent and one is 60, one stays at 60. If it stayed at 60 went on up, our cap is now about a 125,000, we could make a larger loan through Ginnie Mae securities, if we have the additional guaranty.

Miss Kaptur. I think a lot of people are looking at this. You know, we checked with Wall Street, we checked with everybody before we recommended this to see what would happen, and no one knows. Everybody thinks that things will probably all wash out and be somewhat the same because we are moving into an area of new experience here, but the pluses outweigh the minuses, so we are going to try to make this work.

Mr. Holton, did you have a comment?

Mr. Holton. I think the one thing that you need to keep in mind in the guaranty process, as Mr. Kamin pointed out earlier, a $160,000 loan with $40,000 guaranty is very attractive. It is in a planned community. It is less likely to be subjected to inflation in values than are the price range of homes in the $50- 60,000 range, which we find that a large number of the veterans as well as HUD purchasers require, and that would be to their detriment because the monies would chase the larger loans. They are more secure.

So, the first thing you find is that if you did not want—if you wanted a VA loan, you would be buying a $100,000 house because that is where the lending community would find comfort. $40,000 guaranty on a $100,000 house, you are not going to get the deflation that you do on a $50 to $60,000 home.

Miss **Kaptur**. Mr. Glasgow, did you want to say something?

Mr. **Glasgow**. I agree with that statement.

Miss **Kaptur**. Yes. Mr. Hancock?

Mr. **Hancock**. Just to put that in perspective, a $160,000 would be almost a $100,000 above the current median house in Houston. It is about $61,000. Obviously reflective of what the median price would be for anybody in the audience. Half of the houses in Houston are being sold below that level, half above. It is not the average price.

Miss **Kaptur**. Under the current Ginnie Mae program, as most of you are aware, you only need a guaranty of up to 25 percent for the second guaranty market to purchase that loan, and we will be providing 40 percent under the legislation. We originally proposed it at 30 percent, raised it to forty after a lot of discussion. So, the secondary market is still out there as a buyer.

We talked to many of the intermediaries on Wall Street who seem to think that it would still be attractive. So, we will have to see what happens here.

Mr. **Holton**. I think the secondary market has—I really think Ginnie Mae also has that 25 percent cap.

Miss **Kaptur**. Yes. Yes, they do. So, we are above the cap by 15 percent—yes?

Mr. **Hancock**. What about the possibility of a higher guaranty on the lower price, on the lower price range, to encourage helping veterans?

Miss **Kaptur**. I think what we are going to do, we are going to watch the experience in the program around the country, and we are certainly going to be flexible in future years. We think that it will work. Yet we have to make sure that the lending community as well as brokers understand what it really means. We have to do an education job as to what these changes are—people just get used to certain rules and they can interpret changes in those rules as meaning the market will go one direction or another. There is no economic reason for this not to work.

One of the things we do hope happens is that the appraisal and the underwriting standards will improve, both for sited houses as well as for mobile homes, so that we are not making loans on properties that will have to be foreclosed down the road because bad loans were made. We do have some terrible experiences in some parts of the country where loans never should have been made and a veteran loses everything, and, so, we are hoping that we provided enough incentive in this program that loans will still be made, but we want better loans to be made for veterans. However, we do have an education job to do with this and we think we are making some headway there.

Mr. Kamin has stepped out, but I was curious in the reaction here on the panel. What do you think, will be the combined effect of the bill's proposal to stop the accrual of interest for no-bid calculation purposes in those instances where the delays are caused by the VA and where the lender has exercised forbearance at the VA's request and where the veteran has commenced bankruptcy proceedings?

How do you think that that proposal combined with the mortgage relief proposal up to the $8,400 additional targeted to veterans who have experienced default, will help in an area like Houston?

Mr. Glasgow. Well, from my standpoint, it can only help bring that 2.5 percent foreclosure rate down closer to the national average. Today, the national average is hovering around 1 percent. What it is going to do is incent the lender, one, to really extend forbearance and by doing that, there are going to be fewer foreclosures.

In turn, we hope that by calculating the interest differently, we are going to have fewer VA no upsets in all of that, but it really starts with the collection efforts by the seller-servicer, and we are convinced that you will see a higher instance of forbearance.

Miss Kaptur. Could I ask the people on the panel here, were you provided with a copy, a summary copy of what is in our draft legislation prior to being here today? You were? Okay.

Miss Allison. We were not.

Miss Kaptur. You were not. I would be very interested in those people who were not. We will provide you with that and if you wish feel free to comment to us.

Ms. Allison, some people expressed difficulties here where they do not find out about a delinquency until it is 6 months into the process. On your Advisory Committee, is there any way that in this area, in particular, some sort of informal notification might occur? Have you thought about this problem of early intervention and what might be done?

Miss Allison. No, we have not, and I will be frank with you. The reason that that has not been, it is not in the focus really of what our council was set up to do. That is why I have deferred several times to these gentlemen because it is in their area more.

Now, it is not beyond reality that the council could study and cooperate in making recommendations on that. We would be willing to study that, and maybe to work with the Houston Board of Realtors who are a part of our group anyway, to come up with some recommendations.

You know, our focus has been to help with the marketing of the already-foreclosed properties, and that has really been our concentration.

Miss Kaptur. Okay. Is the area that I picked out an important one?

Miss Allison. The one you just asked me about?

Miss Kaptur. Yes.

Miss Allison. Very important.

Miss Kaptur. I see some hands.

Mr. Glasgow. It is very important from the standpoint that it is going to help reduce the loans from going to foreclosure, but if you impose that six month criteria, it is too late in many respects to save some of the loans.

Typically. we find out about the reasons for default within the first 60 days. I would estimate that we find out on 75 percent of the defaulted loans what the reason for default is within that sixty day time frame.

What are we to do? Tell them to wait 4 more months before they get relief. That is where we have trouble.

Miss KAPTUR. Is the gentleman still here from the Housing Office at VA? Is he still in the room? Would you mind coming back to the witness table, sir? I have a question of early notification in order not to inundate you with paper.

Do you have any thoughts that you might want to submit for the record at this point that would be useful and not complicate your life?

Mr. MCREAKEN. I hate a lot of paper and, unfortunately, the way this system, and I am not going to blame it on the system, but the way it has been set up is that we are deluged with paper. We code it in and it spits it out every other month and every two weeks and we are constantly piling up with paper.

If you can come up with a way that will do this, I think the early notification, the sooner you can contact a delinquent borrower and start working with that person, the better off we are, but when we are pushing paper through a paper mill, and it gives a lot of reports and a lot of statistics to people in Washington that they can hold in their hands and look at, but it does not save that loan.

Miss KAPTUR. Mr. Holton?

Mr. HOLTON. I agree with Mr. Glasgow in this regard. The testimony has been given earlier before this committee that many of the houses, by the time you reach that point, are abandoned.

Miss KAPTUR. Right.

Mr. HOLTON. So, you have to start early. What I think that you will find, in all due respect to Mr. McReaken, the mortgage bankers in this state, most of them I have been familiar with for over 25 years, they are professional people, they are concerned with their borrowers, and they would bear the additional expense in their shops to ensure that these programs could move forward on an earlier basis.

In our shop, as a matter of fact, we went so far on some cases that we felt were entitled to refunding that we put together credit packages in the application and we forwarded them to the local VA office, and we were told to stop.

Now, if we can get into these assistance programs earlier, we may be able to keep some people from moving out of the houses, we may be able to stop some foreclosures, but the programs have to be implemented. Seven or forty or eleven refunding programs when you have foreclosures of this magnitude is just a small total. It is nothing.

When we talk about the amount of paper work that the Veterans' Administration is faced with, and I understand what Mr. McReaken is talking about, I just propose the question, is that the veteran's problem. That is not the veteran's problem. But he is the one that is suffering the consequences for it, and when it is him suffering the consequences for this problem, the lender- servicer is suffering the consequences.

So, we are disenfranchising people from ownership of homes because we do not have people, we do not have time, and we do not have the will to do what should be done. So, let us throw them on the street. We did a pretty good job of it in Houston, Texas, over the last 2 and a half years.

Miss KAPTUR. I can tell you spoke from the bottom of your heart.

Mr. HOLTON. Yes, ma'am.

Miss KAPTUR. And in the section of our bill that deals with servicing, we are trying to force the VA as a whole, to get more into servicing and I promise you that I am going to direct the staff when we go back to Washington that we get right inside the VA. The division between the legislative and the executive is a very ticklish relationship, as you can tell with Oliver North and what has been going on between Congress and the White House now, but we are going to check.

To me, I find it incredible that in an area like Houston, which has suffered 25 percent of the foreclosures, there would not have been a crisis management team that would have been automatically deployed—we do that with HUD. When there is a flood, we send all the mobile homes out. I mean, they go through, the Emergency Management Administration. It just happens, and I find it incredible to hear some of these numbers.

You are all saints for having spent the time to try to make this system work, and—yes?

Mr. MCREAKEN. Can I add one thing?

Miss KAPTUR. Yes.

Mr. MCREAKEN. If you really want to make a change in attitudes within the agency, make refunding not just an option of the agency, but make it like the assignment program. Now, they will hang me for that in Washington.

Miss KAPTUR. We will not even tell them you said it. You are not here today.

Mr. MCREAKEN. It will get out somehow, but that is how you change philosophies in the agency, is to make it a fact so you cannot ignore it. We do not ignore it. We consider refunding and deeds in lieu in every case, believe me we do, but in most of the cases, because of the criteria that are set down, we do not approve a deed in lieu nor do we go along with the refunding in most cases because of the criteria set down.

Miss KAPTUR. Okay. I also wanted to ask, I noticed there was someone from Rice University that is going to be speaking a little bit later.

Mr. Kamin left the room, but his billion dollar proposal, as Congressman Brooks said, to try to preserve the properties rather than throw people out and to try to better use that money, I am wondering whether you have the capacity at Rice to do any kind of a computer program where you might plug some of those numbers in and give us an estimate of costs—and I know those folks will be speaking later.

Did you hear what Mr. Kamin said when he was up here before on that? Do you think it would be of any value in doing a case study for us?

Mr. HOLTON. Yes, ma'am. I think what Mr. Kamin was alluding to, Madam Chairwoman, was the fact that, and I just revert back now to the information that was furnished earlier, that at the last auction, the properties were sold for 35 percent of the appraised value at the time they were acquired by VA.

So, that means in hard dollars that if I had a foreclosure the VA paid me for, a $100,000, which they would have had to have done to have title to it to put it in the auction, if they sold that property for $35,000, that if you took that money, worked it into restructuring, refinance, subsidizing delinquent mortgages, keeping these people in the house, how much would you have saved? What would it really have cost you to do so?

Miss **Kaptur**. As I say, that is my question.

Mr. **Holton**. We can ask Dr. Gaines if he will stand up and say they have that capability.

Dr. **Gaines**. Yes, I think we could do that. It would take a little time to model it and put it together, but the basic concept, though, is obvious that you save money in the beginning from the VA's standpoint but also the community's standpoint, saving money in terms of the savings, if you will, of not losing property values across the board.

Miss **Kaptur**. I would have a use for that information. I would not want to put you out. I would not want to, but if there is anyway that it can be done—I am only asking for a page or two. You can use whatever assumptions you want, but I would appreciate that information as a part of the formal record, if that would be all right.

Dr. **Gaines**. Sure.

Miss **Kaptur**. Yes, Mr. Glasgow.

Mr. **Glasgow**. One other point I would just like to raise is that what we are dealing with here are the refinancings of that VA loan. It has been proven already in the last year to be effective, because the private sector reacted quicker than the VA and the industry as a whole, it has been proven that it works.

We today have approximately 450 conventional loans where between the cooperative effort between the mortgage insurance industry and the lender, we have been able to modify the loan and saved in one hand the MI industry at least $3 million this year and saved the lender the resulted loss, and the borrower a foreclosure.

So, we already have some numbers on that, but it focuses strictly on the conventional loans.

Miss **Kaptur**. All right. Yes, Mr. Hancock.

Mr. **Hancock**. To your point, Miss Kaptur, on the question of early notification and what have you, the 60 days, we have got an input here. There is one federally-funded consumer credit consulting agency here called Gulf Coast Community Services Association, and they are limited because they have only seven to eight counselors, but they, I am told, are over-loaded with VA and FHA people who are inquiring for assistance, and it says they cannot begin to assist until the loan is at least 3 months delinquent due to the simple magnitude of the problem.

I do not know how many people are behind this thing. Quite frankly, I had not even heard of it and was not aware of it, but that is an external—

Miss **Kaptur**. I guess my quandary at the moment, not being inside the agency and never having worked for the agency, is if one were to require early notification, then he would get inundated with paper and collapse. So, how do you try to do this in some reasonable way based on the way that it functions at the local level?

Mr. **Glasgow**. If you let the lenders look at the cost of the resultant REO loss compared to the advances that they would make on the debt service, they would probably be willing to advance part of the $8,400 if they can receive reimbursement timely. You do that today with HUD on their foreclosures through a wire transfer process where there is no paper. The veteran is saved from a foreclosure sale, the lender a repo, and the VA saves a claim payment of $27,500.

There are ways to do it and automation has creeped into our industry at least, thank God, to that extent.

Miss **Kaptur**. How does that relate to his operation today?

Mr. **Glasgow**. Well, it relates because he is worried that every time he is going to advance or you are going to get that $8,400, there is going to be a piece of paper that is initiated to, I guess, get the first month's payment and you do not need to do that necessarily.

Mr. **McReaken**. Let me, if we can depend on a lender to underwrite 80 percent of their loans in-house, and that is what our loan originations are showing now, that 80 percent of all new loans originated are done automatically in-house by the lender, there is really no reason, and I am going to back to you, there is no reason why you could not work up a refunding package and consideration that could come in to us for whatever you might want to call it, a review, a rubber stamp, and a refund.

Mr. **Holton**. Right. We are constantly in communication with delinquent borrowers. The process can be started in the early period of time where we provided the criteria that would be required by the Veterans' Administration for refunding short pay- off or for participation in the new programs, which you have presented in the bill, House bill.

I do not think there is a mortgage banker that I know of that would not assist in the gathering of that data in the format that could be fed to the Veterans' Administration for review if we are given the specific criteria.

Now, also understand that we give—if we are given the criteria and we think that person fits the objective, we are going to be pretty vocal about it. So, you know, if we know, we delegate underwriting now, direct endorsement, I believe is what it is called, we can make a VA loan, but we do not have any earthly idea on the back side of what it takes to make a veteran eligible for relief.

Mr. **McReaken**. See, that goes back to Mr. Myatt's statement that we concerned ourselves with the front end and let the back end take care of itself, and it cannot any more in this area, and I have no problems. You know, what I could do, I never thought about this, I could put a letter out to the industry and just set out the criteria on refunding.

I think the fear—

Miss **Kaptur**. I guess I am saying you do not need us—do we need to direct that from Washington? You have the authority.

Mr. **McReaken**. Well, it is a kind of—it is a—now, what we can do is we can tell—my manual, which is nothing more than about a two-page section on refunding that sets out the criteria is for in-house guidance, there is no reason why I cannot make that available to the industry as a whole.

I think the fear that goes through Washington at Central Office is the fact that if any office does a wholesale business in refunding, it is going to deplete the revolving fund.

Now, I do not—you know, that is way beyond my thought process, but when I think about you being told to quit sending those packages in, it kind of galls me because there is one made up already. I do not have to think about that one.

Mr. HOLTON. What you are looking at is this, Madam Chairman, whether you expend the money on refunding program, which apparently I am getting the distinct impression from Mr. McReaken that they can refund all the loans they can get approved on July 4th of each year, since their office is not open that day, that the mandate from Congress is going to have to be make relief available, do not give us this seven refundings as a token in an area that has lost 5600 households that have been disenfranchised. Make available the criteria. We will work with Mr. McReaken and his people. We will review. We will put together the facts. Help us get out of this process. Let us get out of the no-bids.

As Ms. Allison said here, they can get $15,000 more for a house than VA is selling for at auction. That means on the back side, some lender got stuck with a house in an area that is next door to one they sold or would they rather have one next door to one she sold.

The veteran is stuck with no chance of diminishing his deficit.

Miss ALLISON. Chairwoman Kaptur, I would like to say that there has been more innovative talk at this table right now than our Council has seen in a year of working with the Administration, the Veterans' Administration.

What we are concerned about and have been up against is that we are bounced from the Regional to the National level of VA and back many times, and I am not pointing the finger at either because I really do not have a clear understanding sometimes of where the problem is.

For instance, when we left the hearing on April 22nd, I believe, I discussed with Mr. Vogel in the hall on the way out, Mr. Vogel of VA, that the figure that I had had in my report was that there was something like a discrepancy of the number of employees, for instance, in the VA around the country per property, a 142 properties per employee around the nation in VA to handle them, but in Houston, there were less than a hundred properties.

Now, what I am saying is is that there is a tremendous fact shortage down here, and that that has been going on for a long time, and that we have, in talking to Mr. Vogel after the subcommittee hearing, what I got back was shaking his head and, frankly, I was very distressed because there was eight of us up there and that was our main concern.

But what his reply was already in the hall, right after the speech, was, if you ask those people in other regions of VA around the country if they have anything to do, if they are busy, if they would like to transfer to Houston, they will tell you we are busy and no, we would not like to transfer.

And my feeling on that is that that is a corporate decision in private business that is cold sometimes but has to be done for the greater good of the corporation, and I see a resistance a lot of times on the regional level here to have outsiders come in from VA. We had to push for the last task force that was brought in, and I do not understand it all.

I would with you agree that it is incredible that a task force has not been established by the VA to come in in distressed areas. Houston is not the only distressed area.

Miss **Kaptur**. Right. But it is the worst in the country.

Miss **Allison**. Yes.

Miss **Kaptur**. In many ways, Houston is the best place to live, but in terms of this particular problem, you have had 25 percent of the credits problems.

Miss **Allison**. Yes. One other thing I want to say, though, is that they are so under-staffed and so tied up in red tape and old rules that we are trying to change together that I believe that it is demoralizing to them and that the first thing that we need to do is pop staff in down here to give them some relief so that they can get a positive approach to work with us.

Just requiring them to come up with another miracle gets very old, I am sure, on their part.

Miss **Kaptur**. I know, Mr. Holton—yes, ma'am?

Miss **Leder**. I just wanted to add one thing and that is while we are talking about refunding with the veterans, another big problem that is in this is that a lot of vendee loans are going into default. So, we need that refunding available to the vendee loans as well.

Mr. **Holton**. I would suggest that this subcommittee consider extending these programs to loans on which the Veterans' Administration has a liability. They have a guaranty on the VA loans. It may be an assumptive, but it is still potentially exposure to the Veterans' Administration and God knows in that case, the veteran may be living in Arizona thinking everything in Houston is fine, so he goes out to get his income tax return 1 year and finds it has been taken by the Veterans' Administration for deficiency.

But anything in that loan, the vendees loan, they are guaranteed, they have to buy them back within, what is it, 3 years? Two to 3 years? Yeah.

Mr. **McReaken**. Let me tell you what we do with our vendees. Like kiss and tell. We have—we had the same problem with high rate vendee loans where they were going into default. We can—we sent letters out to those people and said would you like us to modify your note and mortgage. We can do that because this is a conventional loan. Our vendee loans are conventional loans. It has the same attributes as a GI loan, but they are available to vets and non-vets.

Mr. **DeWitt**. That is before you sold it.

Mr. **McReaken**. This is before we sold it, right. The ones he was talking about are the—what we call the VA Regulation 4600 loans, the loan sales.

The vendee is a loan we still have that we are servicing ourselves. We have about 6,000 of those in this office right now. We sent letters out. We said we want to modify your note mortgage. We want to knock it down to 11 percent, 10 percent, whatever the rate was at the time. We had 300 people come back and say do it, please. We did it. We did not forgive. You know, we did not reduce the outstanding loan balance, even though the values of the properties had gone down, and they wanted that part adjusted, too. We adjusted the interest rates, which brought the payments down anywhere from a $100 to $250. We were able to salvage many of those vendee loans that we had.

We can do that because no investor owns those loans.

Miss KAPTUR. Mr. DeWitt, did you have a comment?

Mr. DEWITT. When he sells those vendee loans, they get to be our problem and we cannot give the veteran then the same relief that he can because we put them into Ginnie Mae securities and we go under the loop again where they have to be bought out and all this sort of thing.

Miss KAPTUR. I hope you found this a useful discussion. I certainly did. You know, I think Congress should change so many things. We have these formal hearings and this is a formal committee hearing, but we have one panel come up and this is the way they always do it, it is for the record, because everything is recorded. Never do the witnesses have a chance to talk with one another and, frankly, I find that one of the most useful things to do—I always do it at the hearings that I chair.

I find it useful for myself and useful usually for the people that are communicating with one another because often times you do not have a chance to deal with the agency people directly, and I would certainly encourage you to try to figure out a way to streamline that process of early notification here locally.

If Mr. Myatt runs into problems, you let me know. You can write it on stationary that is non-VA stationary and we will try to help you out because it just seems we get all gunned up. I am not a lawyer, so I can blame them all the time for these procedures that we get ourselves hamstrung with, but I would certainly encourage you to do as much as you can locally as far as streamlining the procedures themselves for early notification and we are going to proceed ahead here with the next panel.

I appreciate your patience and want to thank you for taking time today. It cost you money and effort. So, we are very grateful for your being here.

I am not going to take a break. If anybody wants to leave and go have a cup of coffee or go have a candy bar, you have my blessing, but I would like to call up the next panel, if I could.

Dr. James Gaines. Let us see. Mr. Dalton Smith, President, Houston Homebuilders has left, and he is being replaced by Mr. Max Hoyt. Mr. Martin Perlman, President of Perl Homes. Mr. James Shelby, MAI-SRA, Houston.

We are also going to ask on this panel Dr. James P. Gaines, Vice President of Rice Center, and Mr. Clyde Doyal, Attorney. Oh, my, I had better be careful about what I just said. Attorney, Legal Services, with the Veterans' Land Board in Austin, Texas. If you could come to the table please. Mr. Hoyt, please proceed.

STATEMENT OF MAX HOYT, EXECUTIVE VICE PRESIDENT, GREATER HOUSTON HOMEBUILDERS, ON BEHALF OF DALTON SMITH, PRESIDENT, GREATER HOUSTON HOMEBUILDERS, HOUSTON, TEXAS

Mr. HOYT. I am Max Hoyt. I am representing Mr. Smith.

Miss KAPTUR. We apologize to Mr. Smith for the lengthy proceedings here.

Mr. HOYT. My name is Max Hoyt, and I am the Executive Vice President for the Greater Houston Homebuilders Association. We are made up of some 1200 firms in the building industry here in the Houston region, and I would like to, if I may, not read the testimony because it has been submitted for the record.

Miss KAPTUR. Thank you very much. We appreciate that.

Mr. HOYT. And I would like to suggest that to avoid the redundancy that is in there, that I could just summarize quickly and using one of your congressional prerogatives, I would like to give what time I have allotted and that I do not use, to Mr. Martin Perlman, who is the Secretary and Vice President of the National Association of Homebuilders. He has, I think, information which you will find extremely interesting. It goes beyond the scope of what has already been discussed.

The builders are very concerned about the no-bid process, and we understand that you understand that concern. So, we will not beat that horse. We are also concerned about the fact that the Veterans' Administration does not take the time or effort to improve properties before they go into a sale situation and, consequently, the distressed sale that is apparent to investors continues to create the problem in the marketplace. They contribute, particularly with the comparables, in the economic destrcution of neighborhoods. That point has been made strongly here today, and I would just like to echo that.

We think homebuilders are being hurt by the fact that the lending institutions are unwilling, because of this no-bid situation, to make VA loans and thereby is closing down that avenue or that market for the builders, I think you will see that fact clearly presented in Mr. Smith's testimony.

One thing that has been overlooked so far in the testimony is the fact that the big loser is the veteran. This is an entitlement that these people were given as a result of service to their country, and we feel that whatever you do to help the veteran continue to get into a home in Houston or elsewhere is going to be beneficial to the veteran as well as the building community.

We would hope that fact stays paramount in the decision process that is made by the committee.

[The prepared statement of Mr. Dalton Smith appears on p. 119.]

Miss KAPTUR. Thank you very much. Mr. Perlman.

STATEMENT OF MARTIN PERLMAN, PRESIDENT, PERL HOMES, INC., HOUSTON, TEXAS; VICE PRESIDENT/SECRETARY, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. PERLMAN. Thank you, Madam Chairwoman.

My name is Martin Perlman, and I am Vice President and Secretary of the 147,000 member National Association of Homebuilders.

I am also a builder here in Houston who has been active in the VA Home Loan Programs for over 21 years.

The NAHB is a trade association of the nation's homebuilding industry with almost 20 percent of our builder members involved in building housing financed under the VA housing program.

Madam Chairwoman, on behalf of NAHB, we would like to commend you on your efforts to address the problems facing the Veterans' Administration Guaranty Home Loan Program and your great interest in assisting veterans becoming and retaining home ownership.

On behalf of our association, I would like to thank you for your efforts in passing the Veterans' Housing Rehabilitation and Program Improvement Act of 1987, called H.R. 2672.

I will be speaking to you this afternoon really wearing two hats. One as Vice President and Secretary of our great trade association, and the second as a Houston home builder who is greatly concerned about the housing market in our Houston area.

First, I would like to take this opportunity to comment on the Veterans' Administration's home loan guaranty program in general. VA housing programs have served veterans and their families for over four decades. They have given veterans the chance to achieve home ownership with all the opportunities that come with putting down roots and establishing community ties.

We commend the VA for its services to veterans as they have guaranteed over twelve million VA loans. I represented the NAHB for the ceremonial closing of the twelfth million loan in Phoenix, Arizona, this last March, and we appreciate your efforts and all those in the House of Representatives who passed H. Con Res. 78, which commended the VA for its twelfth million loan.

I must say that the closing of that twelfth million loan was the highlight of my year so far as an NAHB senior officer.

Congress spoke very clearly in 1944 when authorizing the GI Home Loan Program as an entitlement. I repeat, entitlement program, to enable veterans to obtain mortgage credit. There has been bi-partisan commitment over the years to help veterans purchase their homes. The VA has done an excellent job in carrying out the housing entitlement programs afforded veterans and NAHB has consistently supported the Veteran Home Loan Guaranty Program and believes the VA to be one of the best federal agencies in terms of service to the consumer and the home builder.

Madam Chairwoman, we congratulate the subcommittee on their support of that portion of the bill dealing with adjustable rate mortgages, but we urge that the demonstration be implemented in more than one regional office, and that it includes a demonstration in a high cost area.

We would also urge a nationwide demonstration similar to the Federal Housing Administration program which is currently set at a level equal to 10 percent of the previous year's mortgage and loan activity. We would point out to you that the Veterans' Administration is the only market participant that does not offer such a program.

We support H. Con. Res. 78 which states that the 1 percent fee should not be increased. We urge Congress, however, to give serious consideration to the issue of whether the program is truly an entitlement for which user fees may be inappropriate.

We support the provision of House Bill 2672 which gives authority under the VA Home Loan Guaranty Program to the lender to determine the reasonable value of homes bought by veterans.

For the first time in the history of the program, a ceiling has been placed on the overall volume of loans that could be made by the Veterans' Administration under the sequestration provisions of the Deficit Reduction Act. The Loan Guaranty Program is an entitlement program, and should not be impacted by the Gramm-Rudman-Hollings Deficit Reduction provisions.

The reduction in the number of loans will not result in a deficit savings. H.R. 2674 would substitute a 40 percent loan guaranty and that has been discussed here this afternoon in great detail for a guaranty of 40 percent, whichever is less by existing law, and we wish to compliment you, Madam Chairwoman, for your consideration in increasing that 40 percent, but our concern is that while the guaranty applies for single family homes made at the higher end of the market, the guaranty dramatically decreases the coverage for loans at the lower end of the home price market where the program is really needed, and I think that our association has offered testimony to that effect to the committee before.

And as you know, the Senate bill, S.9, has increased the loan guaranty amount to $36,000, which is the current NAHB policy, and we look forward to working with you and the Conference Committee to resolve that issue.

The National Association of Homebuilders strongly opposes credit reform measures which attempt to restrict federal mortgage credit activities of the Veterans' Administration and other housing programs. Since the VA Home Loan Guaranty Program is a guaranty program, this action is yet another attempt to restrict federal housing credit and ignores the entitlement, I repeat, the entitlement nature of the program.

Now, in your letter of invitation of July 12, you asked me to talk about the economic problems which have attributed to the alarming high foreclosure rates in the Houston area, and you noted that properties are continuing to be foreclosed on and that the VA is acquiring title to approximately 356 properties per month.

These facts are undeniable. Let me speak to that issue for a few moments by changing my hat to that of a Houston home builder. There have been over the past years in the Houston community economic circumstances beyond the control of the veteran homeowners, the Houston homebuilders, the Veterans' Administration and possibly the Congress of the United States.

These economic circumstances have been devastating to this community in terms of individual health of the community, human well-being of its Houston citizens and almost the complete destruction and disruption of the homebuilding industry here in Houston.

We have lost over a 150,000 jobs, and I do not have to paint to you and members of the subcommittee the implications of that type of job loss as far as its impact on human suffering.

It is my personal feeling that the Veterans' Administration program of auctioning foreclosed homes for sale at some times 50 percent or below market value has contributed to the destruction of the homebuilding and home buying marketplace here in Houston, and let me cite to you my personal example.

As mentioned to you in my opening statement, I have been in the homebuilding industry for some 21 years and have provided housing during that period to some five to six thousand home buyers. Most of which, and although I do not have the specific numbers, have been veterans.

The housing that my company has provided over those 21 years has been to low and moderate income blue collar workers. We have prided ourselves in providing good quality affordable housing and, yet, today, I face the possibility of shutting Perl Homes down, specifically because in the subdivision that I am currently building in, we are competing with VA foreclosures sold at 50 percent or more of what my current sales price is.

It is impossible to compete against the Veterans' Administration selling homes for $35,000 when I am trying to sell the same product at $65 to $75,000. The answer to me seems relatively simple, although I recognize that many times in the Congress of the United States simple ideas become highly complicated, but let me outline to you very briefly as a lay person the suggestion for consideration by the VA and this committee, and it was mentioned earlier, and I detected a note of negativism on the part of Mr. McReaken, but I must tell you that in this marketplace, private lenders are embarking on this program very successfully because their decision to not destroy the marketplace was made in good conscience and they are doing an excellent job by employing third party contractors.

Why not hold foreclosed houses in the Veterans' Administration portfolio and put them on the market as rental units rather than selling them at deep discounts? This would accomplish several things.

1. It would provide housing for citizens who cannot afford to buy.
2. It would stop the Veterans' Administration from destroying the marketplace.
3. It would save the Federal Government the anticipated budgetary hit that they most assuredly will have to take by selling these properties at such deep discounts.

I recognize that current law requires that the VA sell at least 60 percent but no more than 75 percent of its acquired properties, and I noticed in your statement during the mark-up of the Housing Affairs legislation on July 14th, when you made the statement that you were willing to change these percentages to a range to fifty and 65 percent for 1 year, and that was just a quick-fix type of proposal which would, although it may cut back initial outlays, cost the government more in the long run.

I submit to you that what the Veterans' Administration is as far as auctioning off foreclosed properties, is costing the government both in the short-run and it will certainly cost them a great deal of money in the long run.

I also noted in your comments that you planned to monitor the VA practices carefully to make sure they are maximizing the proceeds of loan sales. I cannot reconcile the VA practices of auctioning homes to your concern in making sure that the VA maximizes proceeds from loan sales.

Houston and the Houston area is in trouble, but given enough time, these troubles work themselves out. From my personal perspective, I would submit it is incumbent upon the Veterans' Administration to give the community enough time to work out its problems without destroying the marketplace.

It is a simple idea, but I think it is one that merits consideration.

Now, let me talk very shortly about the problem that the VA is causing by dumping properties in the marketplace.

The Houston VA Office has undertaken a systematic program of property disposition without regard and consideration for nearby property values. Among the tactics utilized are public auctions and to induce people to attend and participate in these auctions, the auctioneer for the VA has given away homes free, and I cut out an article from the paper yesterday where you can win a new truck for your auctioned home by attending the VA program.

Now, if I gave those incentives for my sales prospects—I would not be allowed to give those incentives in selling VA houses.

This sales procedure resulted in the disposition at below appraised or market value. The GAO reported that in one of the auctions, the average property was sold for 44 percent of the VA's initial sales price. While this method of disposing of inventories may achieve the VA's goal to reduce the number of properties in its total inventory, the impact on property values has been devastating. It has an immediate effect on other values in the neighborhood in which that home was sold.

For example, when the next-door neighbor realizes that his $100,000 home is now only worth $44,000 as a result of the VA dumping procedure, he understandably wonders why it makes any sense for him to continue to make his payments on his home. The end result is more homeowners, veterans and non-veterans, are discouraged from continuing their house payments. They are abandoning their homes, which in turn results in more foreclosures.

The problem is circular. The economic problems have led to an unfortunate increase in foreclosures, and then the quick fix or dumping of properties at below market values has driven down the values of other properties. That in turn has resulted in more foreclosures, and who has been hurt, lenders, sure, the veteran, most assuredly, and I can tell you from personal experience the home builder.

Veterans' are losing their homes at record rates. While the original intent of the VA Home Loan Program was to make home ownership available to our veterans, the practices of the VA of taking home ownership away and the veterans are losing more than their homes. They are losing their equities. They are having to realize substantial deficiencies. They are losing their credit ratings, and non-homeowners are also affected.

Miss **Kaptur**. Mr. Perlman, could you summarize in view of the time, please?

Mr. **Perlman**. Yes. I will.

Let me make one other point before I summarize.

Cities, our own city is being impacted because our tax base has been reduced as a result of these reduced values. This problem is global and it has effects on everybody involved in this industry.

The VA auction of foreclosed properties, of dumping, has to stop. The VA should return to an orderly liquidation of its property inventory, even if it takes time and results in a retention of the inventory for a longer period.

The dumping problems have created a crisis in the Houston area, and the status quo cannot continue.

I would like to thank you, Madam Chairwoman, for allowing me to appear before you and I emphasize the support of NAHB for an increase in the loan guaranty maximum, an exemption for mortgage ceilings, a provision for adjustable rate mortgages, and the direct endorsement of VA appraisals.

It is essential that the VA remain true to its basic responsibility of providing credit assistance to veterans. This community can rebuild itself, Madam Chairwoman, and it is incumbent on the VA to withdraw the programs that are destroying the homebuilding marketplace.

Thank you very much.

[The prepared statement of Mr. Martin Perlman appears on p. 124.]

Miss **Kaptur**. Thank you, Mr. Perlman. You are a most eloquent spokesman for the interests of Americans as well as the housing industry.

Mr. Shelby, are you next on the list? Yes.

Mr. Shelby.

STATEMENT OF JAMES W. SHELBY, MAI-SRA, HOUSTON, TEXAS

Mr. **Shelby**. Madam Chairwoman, members of the panel, I submitted some prepared remarks in advance, and I think I will just let what I said in those prepared remarks stand as it is, and add a few comments at this point, if that is agreeable.

Miss **Kaptur**. Without objection.

Mr. **Shelby**. Thank you.

I am, if you think of it in military terms, I am one of the guys that is in the grunt section. I am the fellow that has to walk up to the door before these people move, knock on the door and say, hi, I am a VA field appraiser and I am here to do a liquidation appraisal on your home. This is in advance of the people moving, if they are still in the house. We obviously do not say that.

But this is the perspective that I get to view this problem from. It is a painful perspective. Very painful. I decide annually whether I am going to quit or not because I do not enjoy doing it. I do it because it has to be done. I would like that, in the record.

Miss **Kaptur**. It is a really stressful job.

Mr. **Shelby**. It is, indeed.

I took 1 year off the VA field appraisal panel at one point in time and was advised that I either got back on or got off completely, and I had to look at my hole card and weigh what was going on and decide that I needed to work for the VA some more, not for the money. I am not here to hit you up for a raise, but we do not get paid a whole lot. At the very best, we sometimes break even, we sometimes lose money.

But the VA program is one of the most worthwhile housing programs in the country period. I have appraised houses that Mr.

Perlman built. I have appraised repossessions down the street from the houses that Mr. Perlman built.

We are seeing people this month that have been in their homes 10, 12, 14 years, that thought they were established and stable and suddenly they are in arrears on their house payments, and I get a request from one of the gentleman who was here earlier that has a mortgage company, and I go by to see these folks.

Obviously, I am about as welcome as the tax collector at that point in time. We do get a lot of insight and we do try to encourage the folks to stay with the home, and we do encourage them to talk to the people at the VA Regional Office, and to try to work out some sort of solution to their problems, and then we go and do what we get paid to do, which is deliver an appraisal report to Mr. McReaken's staff for review so that, if necessary, he can reacquire that property.

I have heard a lot of talk about the auctions, of the foreclosures, because about 15 percent of the total foreclosure market in Houston is as a result of the VA inventory. The VA does not set the market here. The total numbers that were published in the papers, what, 27-28-2900 properties foreclosed and the VA is 350 some odd.

The VA did not start the auctions. The VA did not start the dumping. The VA has historically repaired and sold the properties that they took back. They do not have the ability to do that this year. There are more properties to be repaired and resold than the staff has ability to administer.

There are some times in areas where, if they are repaired, they are revandalized before they can be resold. There are extreme problems in that area. We have looked at properties and talked with different agencies that are having this problem. I do work for FDIC, for FSLIC, for the Federal Home Loan Bank Board. They are all faced with the same problems and everybody is having to address their problems individually.

The auction thing is a bad idea. It is setting up a series of second, third and fourth wave foreclosures. As those things are going to probably be resold and refinanced out of that auction by somebody with a poor origination as far as the qualification of the buyers. They are going to recycle and they are going to come right back through the system.

I agree with the people today that have said that they need to be resold by the agencies with financing originated by people that are qualified to originate the financing and qualify these buyers.

There is no benefit for anyone to putting someone into a home that they cannot maintain. We had a lot of situations that came about here in the late fifties and early sixties where values dropped abruptly in areas and people were suddenly able to move from a small house to a large house and then they discovered they could not pay the light bill, they could not paint it, they could not do the things that are necessary to live there.

So, a neighborhood went down. I think this could happen to the foreclosure situation. The light company is not going to change the light bill on those houses just because they were foreclosed and resold. They are still going to require the same number of kilowatts to heat and cool it. The people that qualify at one level to repurchase them are not going to be able to qualify and pay the expense of operations of ownership.

It is, as they say, an endless-type of cycle. There are some reports currently that water districts may be in the impossible position of having to default on some of their bonded indebtedness within the state. That is the people who provide the utilities and the drainage to these tract homes. They are not collecting enough taxes to maintain their operations.

I agree with Mr. Perlman in the sense that forbearance is the only possible solution to what we have. This is within my 26 years of experience, the worst situation that I have been exposed to and, yet, I feel personally that although I do not agree with the people that said we are booming, I do feel that stability may well be around the corner for this area. We are not going to achieve stability by dumping properties and reducing values and destroying the infra-structure. That is not possible.

Miss KAPTUR. Mr. Shelby, could you summarize at this point, please?

Mr. SHELBY. Yes, ma'am.

I thank you for inviting me. I applaud what you are doing. I have worked for the Veterans' Administration as a field appraiser for some 15–16 years, and I continue to do so because I consider it one of the areas of public service as far as I am concerned, and I would sincerely hope that nothing is done to eliminate that benefit or entitlement for the person who was in some war or had some military exposure and as a result was accorded a benefit.

The veteran is really the one that is getting damaged on this deal and they are getting a bad, bad deal.

Miss KAPTUR. That is right. That is why we are here, Mr. Shelby. It is happening in other parts of the country and we intend to preserve this program and improve it.

[The prepared statement of Mr. James W. Shelby appears on p. 133.]

Miss KAPTUR. Thank you very much.

Mr. SHELBY. You are welcome. Thank you for inviting me.

Miss KAPTUR. Mr. Doyal.

STATEMENT OF CLYDE DOYAL, ATTORNEY, LEGAL SERVICES, VETERANS' LAND BOARD, AUSTIN, TEXAS

Mr. DOYAL. Madam Chairwoman, we have submitted a statement and I know you are short on time. I would like to say that the people of Texas have supported our veterans and our agency is committed to that support and Commissioner Mauro and the Veterans' Land Board would like to pledge their support to you and your committee to do anything that we can to assist you in solving the problem that has been presented here today.

[The prepared statement of The Texas Land Board appears on p. 135.]

Miss KAPTUR. Thank you very much.

Dr. Gaines.

Thank you for your offer of assistance before.

Dr. GAINES. You are welcome. Maybe we will come back around with that.

STATEMENT OF DR. JAMES P. GAINES, VICE PRESIDENT, RICE CENTER, HOUSTON, TEXAS

Dr. GAINES. I appreciate the opportunity to be here today and if I may take about thirty-forty seconds to explain what Rice Center is so that you are a little more familiar with it.

Rice Center, in its fifteen year history, has been looking at issues here in the Houston area in terms of the economics and the real estate market and so on. We are affiliated with Rice University as a standing research resource to the community.

So, unlike many of the other players who have appeared here today, I do not really have a dog in this fight. Our sole mission is to provide information and research to the community. So, I am a little unlike the others in the sense that my function here this afternoon is simply to report some findings of research that we have done to the committee and to add to it.

We also submitted written testimony. What I will try to do is summarize through that as quickly as possible in the interest of time and get right to the point.

There is no denying the fact that the real estate markets in Houston since 1983, across the board, have taken quite a hitting. The down turn in our economy is fairly well documented. Actually, Mr. Perlman was kind.

Since March of 1982, when we peaked in employment, we have lost over 213,000 jobs, through May of 1987. According to Rice Center's estimates, we have had as many as a 196,000 people leave the seven-county area known as the Houston CMSA. Our woes began as many know with the oil price down turn in 1981, accelerated in 1985-86 time period.

What all of this has led to with the loss of jobs and loss of income because of those jobs, we have had problems in the single family residential market which we are here to address today specifically, and the level of foreclosures and the decline in property values which in some subdivisions has reached as much as 50 percent, can be ascribed in our opinion to three particular factors that have happened here in the Houston area.

Number one, without a doubt, the fall in the economy and loss of jobs. That probably would be by and large the number one issue, but, number two, when that bubble burst at the boom period in Houston, it takes awhile for real estate markets to adjust. Generally, the single family market can adjust quicker than some of the commercial markets.

But, for example, in 1983, when we lost about a 125,000 jobs, we still built 27,000 houses. So, the construction did not quite keep pace. It was about a year behind before it was able to work its way to the market.

The point there being that we over-supplied. We went through a period of time of 8 or 9 years of shortage of supply. An area that was adding people at the rate of 200,000 people a year moving to this community, severe housing shortage. Build as fast as you can because the housing is needed.

The problem is that when the economy turned south, it is tough to turn that valve off. So, we wound up in a situation of very much over-supply.

A third factor that we think are contributing to the woes today, particularly the foreclosure issue of today, was the creative financing, quite honestly, that had to go on and did go on between 1980 and as late as 1984 and 1985, where prices were inflated not because of market considerations but purely because of buy-downs and points and creative financing techniques used with variable rate mortgages, etc., to qualify buyers to get into houses and, quite frankly, we cannot estimate the exact percentage of this, but we think that is the lion's share of what is going through the market now in the form of the foreclosures, are these people who were caught in the situation where their monthly payment in a matter of 2 or 3 years went from perhaps $500 a month to $1300 a month, incomes could not keep pace, and on top of all of that, the value of the property fell in some cases to below the mortgage loan. There was simply no incentive to keep that loan current.

We have conducted research on the effects of not only the VA foreclosures but foreclosures in general and what we have tried to do in the time alloted to us before this hearing was to prepare for you some examples of sort of controlled neighborhoods, neighborhoods that had relatively high VA foreclosure activity compared to some subdivisions in town that had relatively low VA foreclosure activity and which were more or less comparable areas, subdivisions, back in 1980, really, before all these problems started, and those are shown in Exhibit 3 in the written testimony.

But what I would like to do is then summarize the results of what our research found. Between 1980 and the last 12 months, using the average price per square foot of the last twelve month period, compared to the calendar year 1980, we found that the average price of properties in the subdivisions that experienced relatively high levels of VA foreclosure activity, parenthetically they typically also had high levels of all foreclosure activity as well, fell by, on average, $10.85 per square foot or about 26.7 percent, compared to a decline of $8.30 per square foot or 19.4 percent in the sample of subdivisions which had experienced relatively lower levels of VA and total foreclosure activities.

What you will find is that back in 1980, both of the sampled groups of subdivisions had on average property values in the $40, $41 to $42 a foot bracket. We took everything to price per square foot for comparability.

Actually, between 1981 and 1982, the property values across the board went up because we were still basically in that boom period with excess demand. But, today, we see in the areas in the subdivisions on average those which had experienced lower foreclosure activity are currently selling in the $33 a foot area, those which have experienced relatively high levels of VA foreclosure in the $29.50 bracket, about a 12–12.2 percent difference.

Another factor that we found, we also noted in those subdivisions where the VA foreclosure particularly had been more active and we could estimate the sales prices being obtained by the VA relative to what was going on in the market at large that the VA foreclosure sales were bringing on average about $26.87 a square foot versus the average $29.57 per square foot for the non-foreclosure sales or about 9–10 percent less per square foot in terms of the prices that they were bringing in.

We offer as further evidence of this effect one particular subdivision and it is always dangerous to make generalizations based on one observation, but we did include it because we looked at a number and we picked the subdivision not in either one of the sample groups that we had worked with before, a subdivision called Bridgestone. It has experienced some modest VA foreclosure activity. It has actually experienced even more FHA foreclosure and conventional non-VA, non-FHA, foreclosures. And the exhibit would graphically portray that the VA prices, particularly in the last year, the first 6 months of this year, the last few months of 1986, are significantly below the generally prevailing market prices in that subdivision and, indeed, would tend to indicate a somewhat downward trend.

In some fairness to the VA, this is also true of some of the FHA and the other foreclosures. They also are slightly below market but not quite as much and are also exhibiting some negative trends, which brings us to our overall conclusions of everything that we would like to say today.

Number 1. It would be unfair to say that the problems in the Houston real estate market are all the fault of the VA. That is not true. The VA is simply one player among others, but to the extent that the VA or the FHA or any of the other institutions, private or public, do not, the word that has been popular here this afternoon, panic sell, if you will, properties into the market, it creates this circular problem that has been referred to and which I referred to as the death spiral, and it is not clear which is the chicken or which is the egg, but foreclosures lead to lower property values, lower property values lead to greater foreclosures. It is a continual spiral that somewhere along the line has got to be broken because lower property values are going to hurt everybody.

They are going to hurt the property owner who loses his house, the surrounding property owners, the lender, of course, the VA, the FHA, the PMI companies, the community, the lower tax base that results. Our city right now is faced with a problem with its budget not to mention the school districts, the MUDs, the other utility districts.

The physical deterioration of properties, as Mr. Brooks pointed out, is obvious to all. If the property sits empty, even if it started in perfect condition, deteriorates rapidly and then, of course, there is the simple loss of pride of ownership in a community and in a subdivision and people being proud to live there and to maintain their problems.

So, if we come with any message this afternoon, our key conclusion would be that if all the lenders, all of them, not just VA, but if all followed that practice that approaches being panic selling, much like we experienced in the sixties, with racial block-busting and so forth, but it is a very similar kind of thing, if everyone dumps their property and "panic sells", we will simply exacerbate this problem with lower property values and increase the rate of foreclosures, making the VA's problems even more magnified.

Now, obviously, what are our choices? What can we do about this? Well, the obvious answer, the simple one is we cannot dump. Now, how do we avoid that? And as hard as it is on all of the institutions, VA and private and public alike, we are going to have to adopt reasonable long-term disposition attitude and policies and programs.

In Houston, for example, it—we are happy to say on behalf of Rice Center because we are also based here that Houston will recover. It is not a matter of if. It is a matter of when. And what we have to do is to devise methods so that—to give the market time to recover without destroying the neighborhoods.

And my last point would be, and I think you appreciate this as well, Houston right now may be on the leading edge of some of these problems. We are accounting for 25 percent of the VA's foreclosures, but other communities throughout the country may experience similar declines in property values as their economic fortunes turn in different directions and experience some of our same problems.

What we see happening here in Houston is perhaps cross-bit setting in terms of how do we work our way out of it, what kinds of programs do we come up with to handle this problem, to break the death spiral, if it be, and, yes, some of our institutions are going to have to address the end of the loan instead of the beginning of the loan, as you mentioned earlier in the day, and perhaps go into the real estate management business.

Thank you.

[The prepared statement of Dr. James P. Gaines appears on p. 142.]

Miss Kaptur. Thank you, Dr. Gaines, very much.

Mr. Shelby, I wanted to ask you if there is a shortage of approved VA appraisers in this area.

Mr. Shelby. Not to my knowledge. No, ma'am.

Miss Kaptur. Yes, go ahead.

Mr. Shelby. There may be a lesser number of folks actually functioning as VA appraisers currently than what there have been at points in the past because the management has decided that the appraisers will perform according to certain criteria.

I myself was given the benefit once this year of sitting on the bench for 30 days and observing the participants do their thing because I had two cases that went beyond the limit in terms of the time frame that I had to get them back into the VA.

Coincidentally, these two cases ended up in the bankruptcy court and I have never been paid by the builder, but I still stood a month on the sidelines.

The point is that Mr. McReaken is managing the staff and I think he is doing an excellent job. I did not like it when I got set on the sidelines, but I understood why. They were very kind about telling me why.

Miss Kaptur. I wanted to also ask you, in your testimony, you included a statement that there was a major over-supply of new and used homes in 1982 which were marketed very aggressively and that the financing terms extended at that time almost assured a future problem when you look at it in hindsight.

Are you saying that even without the impact of the oil industry, it was possible that foreclosure rates were going to rise because of the practices in the industry?

Mr. Shelby. Yes, ma'am. When you have an interest rate increase on the order that occurred in the early eighties, and an over-supply, such as we had in the market here due to the productive capacity of the builders, and an attempt to move the properties by reducing the effective interest rates by paying discount points up front, when you go beyond a certain number of discount points to originate mortgages, you invariably are just deferring that problem to the future.

Miss **Kaptur**. I think the question for all of us as we try to attempt to deal with this in some reasonable way is how much burden belongs on the government, how much burden belongs on the individual family, how much burden belongs on the private sector, and I do not know if anybody has got the magic answer. We will come up with a bill and try to assign responsibility, but I think that that kind of information is very interesting to us.

I wanted to ask Mr. Hoyt about how would you characterize the new housing market in Texas for prospective veteran home buyers?

Mr. **Hoyt**. I could not speak for Texas as a whole, except perhaps in some general terms.

Houston was the first in the marketplace to go south, as the doctor said. We are starting to see some recovery. Back in the 1982–83 time frame, several of our builders did have product on the ground that took 2 or 3 years to work out. Problems that we experienced here in Houston in the slow down of the housing industry has since moved to Dallas, to Austin, and to some degree to San Antonio.

I think that some of the builders in those areas learned lessons from the things that were happening here in Houston and they started severely curtailing the spec homes that they had on the ground or investment in additional inventory.

The thing that we have seen in our association is that in 1981 or 1982, we had about 1800 members and that economic down turn has shaken that tree so badly that we are down to about 1200 now. Many of people that were in the building business or the building industry are no longer there, and the people that are there today have either (1) very deep pockets, or (2) they have got such a tremendous survival instinct that they have been able to weather this storm. We are starting to see a slight upturn in building construction here in the Houston area.

Miss **Kaptur**. I wanted to ask Mr. Perlman a question. There was reference made to a University of Houston report several times during these hearings, and that report indicated the recent collapse in the international oil market and the resulting unemployment have little to do with the depreciation of area home values here and the dramatic rise in foreclosures. The reports state that the current problems had their origin in 1983 and had more to do with excess of building than an economic reversal.

How do you respond to that?

Mr. **Perlman**. Well, I think that, Miss Kaptur, what we faced here was an amalgamation of several factors that affected our particular market, the least of which is the oil prices that this community is facing, but we had in addition to a down turn in the oil markets, we had deregulation of the thrift industries at the same time and doing away with Regulation Q that allowed the thrifts to pay extremely high rates on their deposits.

We had over-building. No question about that. We had everyone in the country streaming into Houston to throw up housing or any type of real estate, and we had about four or five factors that came together all at the same time and I think those all have contributed to the down turn in the marketplace.

I think that Dr. Gaines broached the subject, and I do not have the percentages, but I think that a great deal of the foreclosures that we are facing are related to mortgages that were put on properties in high interest, in times of high interest rates, innovative kinds of financing with adjustable rate mortgages.

I think those are really major factors, and I hope that we do not allow ourselves to get back into that pickle again. Our association is on record opposing those variable rate mortgages at that time because we, and our economists, could see what was going to happen.

Miss **Kaptur**. Well, that is one of the reasons even though many would like us to make adjustable rate mortgages a full-blown program within the VA system, we proceeded very cautiously there, mainly because of the abuses, and we recognize how FHA has tried to deal with those. That is why we have only selected one place in spite of much pressure to repeat what has been done in other places. I think the VA is not used to this program, and that is why we have constructed a very limited demonstration, especially in view of what is happening throughout the system—

Mr. **Perlman**. There is a difference, though, Miss Kaptur, between variable rate mortgages and ARMS. The program that you are adopting in the demonstration has caps on it, and I think those caps as in the FHA program are protection to the consumer.

Miss **Kaptur**. We hope so. We will see how it works.

I wanted to also ask you and I will end with this question of this panel, Mr. Perlman, you have suggested renting of properties rather than auctioning them off. That was rather an interesting idea. No one has said that to us before as a panel, and the VA probably does not have the management capacity with everything else they are doing now to get into it.

I find that rather intriguing, however, and I wanted to ask you, how would you decide which properties to rent versus selling?

Mr. **Perlman**. Well, I think that there has to be a study done in the marketplace. I can only talk from my personal experience. In the subdivisions that I am building in, my salesmen tell me that we get a large number of people who want to come in to rent properties, who cannot and do not have the credit standing to qualify for loans, are not veterans, do not have the down payment to qualify for a FHA loan or a conventional loan.

So, I think the marketplace is there. The determination of which properties that you would rent and which you would sell, I think, would depend on the individual subdivision in which you are dealing with.

The experience here in Houston and you mentioned that the VA does not have the staff to manage those properties, but the experience of other lenders surely in the private sector of employing good professional third party contractors has been outstanding, and I think one that the VA ought to consider.

Miss **Kaptur**. Well, again, I do not disagree with your recommendation. When I look at the VA, though, when you get into major rehab, moving into housing counselling and servicing to a greater extent, moving into rental properties, moving into properties that are over four families per unit, I do not even know of any VA property around the country that is over four units there is little track record. There may be two or maybe one, but the history has been a very important history in terms of single family housing, but in some of the other related areas that we have gotten into in other housing programs, including rental, there is just no experience within the VA.

So, there is a hesitation. There just is not the broad experience within the VA. Perhaps there should not be, perhaps there should be. I think that is one of the things we are looking at.

Mr. **Perlman**. I would submit in just passing that dramatic circumstances require dramatic answers.

Miss **Kaptur**. Yes. I agree. I fully agree. That is why I ran for Congress in the first place. My being in Congress was certainly a dramatic move.

Yes.

Mr. **Hoyt**. Miss Kaptur, just a thought on Mr. Perlman's suggestion. An example of what is happening in the area where I live. A bank went under, FDIC took over several of the adjoining or neighboring properties which they were unable to sell. They finally turned around and said, "Look, we have got to do something with these things, they are sitting there, we cannot sell them." So, they went out and found people who were qualified to make house payments on a lease-purchase agreement, and they said, okay, folks—maybe you have got a credit problem and maybe—

Miss **Kaptur**. Are you suggesting that these be veterans or are you looking to the—

Mr. **Hoyt**. You decide, but I would think that perhaps, you know, the lease-purchase arrangement, try to qualify them and see if the people 3 years from now, based on their payment record on the lease, turn around and become the owner of the property.

Miss **Kaptur**. At this point, I would love to ask the people from the VA if they feel they would have the staff to even—

Mr. **Hoyt**. Well, I am sure they would not. It might be a thing where you could privatize it.

Dr. **Gaines**. That was going to be my suggestion. It seems ironic in this day and time in using Houston as an example we have an over-supply of housing and we have a growing social problem in the country of unhoused people, people without housing, and one of the things that can be done and to follow up on the idea of privatizing is a pooling effect not only in the VA, pool together VA, FHA, and the private lending community.

I mean, there are all kinds of scenarios for this. In the non-profit vein, the corporation that holds the properties in terms of the management burden of leasing and maintenance and so forth, which really gets it away from the burden on the VA and its staff, transfer it to an established organization that is a co-op, if you will, between the private and public sector and whatever—even if they could generate a profit, it would go back into alleviating the problems that created that pool in the first place, and it could be a rental pool, it could be a sales pool or it could be a lease with option to buy pool.

It might be used for people who cannot qualify for loans otherwise. We have still got to do something with the properties, but the point is to use them, do not let them just sit there and be boarded up and go foul.

Miss KAPTUR. I was just asked the question, would we need legislation to do that or is there enough flexibility within the VA to—frankly, I do not know, I would have to check the law on that, but I would be willing to go to the VA with that proposal, if you could come up with some creative suggestion here.

We certainly got them to respond nationally on property disposition where—let us say a non-profit national group goes into the VA and says, they want to use veterans in rehabbing property, asked the VA to give them X percent of VA inventory. The National Office has been willing to do that, and we have gotten a real positive response; but if you have some housing group here, apartment association, or something, I would certainly be happy to use our subcommittee to float that proposal over to the housing folks at VA.

It seems to make eminent sense to me having worked in housing and other areas, but there are always those that want to say no, we will fight that battle when we come to it. I have some numbers here. The VA staff in Washington estimates that there are 12 to 15,000 homeless people in the Houston area. Of those, this probably does not include people that are under-housed, right?

Mr. HOYT. Right.

Miss KAPTUR. Of those so-called homeless, 4500 to 5000 are veterans, and of that 5000, 2000 would be in—would be multi- problem. It would either be mentally ill or need other assistance, but the other 3000 are not, and, so, there seems to be a population here that might benefit from access to that housing.

Mr. HOYT. Even those that need special care. The VA does not have multi-family housing typically, but some of the other agencies or organizations do. For example an apartment complex that cannot survive economically in the marketplace might be able to be converted to some kind of facility for those who do not need twenty-four hospital care and that sort of thing, but for people who are otherwise have housing unavailable to them.

Miss KAPTUR. What is incredible, you are so close to the VA Hospital here, I wish I had one in my community. I do not, and I would like to steal yours with all of its staff, and you have the ability to have counsellors and medical professionals who would work with that part of the population. I want to thank all of you for taking the extra time to be here this afternoon and, again, I offer our subcommittee.

If we can be of help in intervening with the VA in Washington to try to promote a rental proposal that makes sense. If you want to work together as a team to give me something, we wiil be happy to make sure that you get the door open, too, and at least you get a chance to present it.

Mr. HOYT. Can I communicate with you later about the other issues that you raised?

Miss KAPTUR. Yes. I see Mr. Kamin is still in the audience. I thought that he had left, but I wanted to see if you could not help in fleshing out that idea and maybe give us a one or two page working model that we can take to use with OMB and everybody else we have to hit over the head when we want to convince them that selling off these properties at a low price is the craziest thing they can do in terms of the budget and veterans and housing and everything else.

What did FDR do? You know, he must have stopped similar actions. He let people hold on to their properties, whether they were farm properties or residential—we set up all the housing agencies back in the 1930s so people could own property.

Mr. Perlman. I would mention to you in passing that I would see that NAHB looks into the issue of the national housing program for foreclosures and have our VA committee make—

Miss Kaptur. I think that is an excellent idea because I sit over on the other committee, that deals with HUD & FHA, and I will sit on the financial institutions subcommittee where we have just dealt with the FSLIC problem. There ought to be some more coordinated approach that would be available around the country where you could get FHA, VA, Farmers Home and Ginnie Mae to work together in communities like this one in times of crisis.

Each community is hit at a different time. The lumber industry in the Northwest is not doing so well, and, so, they do not work together very well.

Mr. Perlman. We will provide you a report.

Miss Kaptur. Thank you. Thank you very much.

And last but not least, we are going to call any of the following panelists that may still be in the room.

Mr. Douglas Brown, Executive Director of the Texas Veterans' Commission in Austin. Mr. John W. Parker, Past Department Commander, Disabled American Veterans', from Lexington, Texas, accompanied by Mr. Richard L. Richards, National Service Officer, from Houston. Mr. Jose Villarreal, Department Service Officer, the American Legion. Mr. Robert Kafka, President of the Texas Chapter and Legislative Director of the PVA, Paralyzed Veterans' of America in Austin, and Mr. Ed Hurdle, Assistant Department Service Officer, Veterans' of Foreign Wars, Houston, Texas.

You know what I was going to ask you gentlemen to do, if you are not too uncomfortable about this, is you have heard all of the testimony, we can take your testimony, submit it for the record. I would be interested in some of your personal comments based on everything you have heard this afternoon. You can either read your testimony or if you had ideas that were not included in your testimony and you want to talk about those, I tend to find this to be the most interesting part, and I think that is why we force you to sit through and listen to all of it.

I will tell you honestly, if it were not for your service organizations around this country and in Washington, we could not win for veterans in the Congress of the United States, and I know you all traveled to Washington now and then, but I want to commend you.

Of all the groups I work with and believe me I am on a lot of committees, I am so proud of the veterans organizations of this country because they have made such a difference not just on our committee where we are concerned about housing but in veterans' health services, GI Bill, educational benefits.

We just won a big battle to get combat veterans taken care of in the hospital where they should have been taken care of years ago, and if it were not for your groups, we could not move one inch in Washington, and I think you are very well organized and we thank you for your service.

Mr. Brown, why do we not start with you?

STATEMENT OF DOUGLAS K. BROWN, EXECUTIVE DIRECTOR, TEXAS VETERANS' COMMISSION, AUSTIN, TEXAS

Mr. **Brown**. Madam Chairwoman, I appreciate those comments. I am willing to do what you said. We will just have our submitted statement be on the record and make some observations.

I think part of the panacea of the whole problem has somewhat been solved with your hearings here today, with the communication that has taken place between the two panels, and I think that that has been excellent and has opened up avenues of communication. I think you are on the right track right now with this hearing.

I really appreciate your interest and that of the subcommittee's. It was also very good to see Chairman Brooks here and he has always been an advocate of the veterans and the veterans programs.

I commend you for that. As far as the Veterans' Commission is concerned, we see our role in this as doing whatever we can to disseminate information through our publications or with our people that are in the field throughout the state, to pass on whatever programs are implemented or passed to assure all those veterans that we come in contact with that there are ways to maybe go about solving this foreclosure problem and the steps that they can go through to do that.

So, we offer our assistance to the veteran and to those institutions that may need our help to get the word out to the world.

[The prepared statement of Mr. Douglas K. Brown appears on p. 157.]

Miss **Kaptur**. I think, Mr. Brown, that some of the changes we are making in this housing program, we are going to need your help to communicate with lenders, with mortgage bankers, so that they get used to it. I assume we will come through with our bill and we will prevail in the House versus the Senate version, but people became wed to a number, $27,500, whether or not that incorporated good underwriting standards or good appraisal standards, and everyone's answer was, well, we will just keep moving the number up, $30,000, $36,000, and there was not a lot of thought given to trying to create a program that would service the veteran better in lessening his burden or her burden in case there was a default, but that would also tighten up appraisal and underwriting standards at the same time.

We think we have the answer in this bill, but it is going to cause a readjustment in the way people think about the program because even here today there were some comments it must mean higher risks, to the lower end, and I think we have talked to the investment bankers that buy and sell these mortgages and we feel pretty confident that we have created a good program, but we would sure be interested in making sure that every lender and every mortgage banker and every broker understands how the program really operates.

Mr. **Brown**. Well, we are mainly interested, of course, in seeing the programs flourish and continue and we are interested in the veterans receiving this benefit that we feel they deserve and as I know you agree.

Miss **Kaptur**. Thank you. Thank you very much.

Mr. Parker.

STATEMENT OF JOHN W. PARKER, PAST DEPARTMENT COMMANDER, DISABLED AMERICAN VETERANS, LEXINGTON, TEXAS; ACCOMPANIED BY RICHARD L. RICHARDS, NATIONAL SERVICE OFFICER, HOUSTON, TEXAS

Mr. **Parker**. Madam Chairwoman, I want to thank the committee for the opportunity to be here. I thank you personally for the invitation, and to be able to represent the Disabled American Veterans within the State of Texas, approximately 65,000 strong, and you know, of course, that in our elite organization, a person must be service-disabled to become a member.

I would like to relate a few things to you. I think perhaps some of the things that have been, I will not say, overlooked, but shall we say that they have not been discussed today.

Miss **Kaptur**. Okay.

Mr. **Parker**. I think perhaps whenever we, as we go down through today's hearing and we look back on the thing that we are trying to do today, and that is to simplify a system between our banking organizations and our Veterans' Administration and within the powers that be in the Congress in Washington, in behalf of the veterans of this great nation, I think perhaps that we overlook a few things as we try to put together that package.

I think perhaps that we might as we look down along the line in this, realizing, of course, that when a family loses their job as they have in Houston, and knowing full well that the loss of their home is second only as devastating in their lives as a death in their family.

We who have been through the mill, shall we say, and have moved periodically, we do not realize the losing of a home, the impact that it has upon a family, especially the children. I think perhaps that we need to look at many factors in this, and I think that you as a member of this committee and a chairman of this committee are on the right track, but as I said in the beginning, there are a couple of things that I do not believe that we have approached.

One is the impact upon the veterans. The other thing being that we have never mentioned the fact that is the majority of these foreclosures a first loan or is it a second loan or even a third loan. In that, I say this, having worked with the Federal Government as many years as I have as a comptroller, I know full well that you move from time to time. I have within this state of Texas one home that I bought under partial GI Bill, one in the state of Louisiana and those loans are still in existence today.

Now, when that person over there, shall we say, in either one of those homes loses their job and cannot make that payment, that house falls back or reverts back to me. Now, being a 100-percent disabled American veteran, what recourse do I have if either one of those comes back on me?

I think that we need to realize, is this a first mortgage or is it a second or even a third mortgage in this foreclosure. Do you follow what I am saying?

Miss KAPTUR. I hear you.

Mr. PARKER. Okay.

Miss KAPTUR. Under our bill, the burden would fall back on the veteran, but under the changed guaranty you would have less of a burden placed on you. We are proposing 40 percent and under the existing law, it is 60 percent. So, we are reducing that exposure to the veteran, essentially.

Mr. PARKER. All right.

Miss KAPTUR. It is not completely removed, but I know what you are saying.

Mr. PARKER. This is one thing that I want to ask, and I brought this up not primarily for my part, but for the interest of this committee.

I think that whenever we come in to this point here and we realize that we have only 14 people that have had the help in this restructuring of our loans, fourteen in the state of Texas in the last 9 months, I believe it is on that last page, it says refunding completed up on the right top.

We also have noted in the hearing today that we have thirty-nine people within the structure of the Veterans' Administration in the state of Houston that is working on these loans.

Do you think that thirty-nine people can cover 17,000?

Miss KAPTUR. That became abundantly clear today.

Mr. PARKER. That is right. So, consequently, we need, and I am going to make it short, I am going to cut it short for you, we need two things.

We need these people notified, these veterans notified. They need the information. See, I was not aware of this break down on the interest rate.

Miss KAPTUR. Very interesting.

Mr. PARKER. And I stay up on the pending legislation. I get the letters as most all of us do from Washington and I stay up on this. I have to, and I was not aware of that one.

But the simple fact remains that if you go down into the ranks and you check with your veterans, you are going to find that they do not understand what is being told to them, what is being talked about or the information that is being imparted.

One of the gentlemen spoke about sending a brochure to them to help them to—

Miss KAPTUR. Right. I have seen the brochure. Have you seen the brochure?

Mr. PARKER. No. But I would not hesitate but one minute to say that those people did not understand it. They had no part for it. It went in the trash.

Now, I do not know the answer to this, but they need to be informed and educated as to what they are doing.

Miss **Kaptur**. That is why we improved the servicing in the bill because the thirty-nine people that you talked about, we are hoping that that will increase so that the veteran does get this information. This is very complicated. People can lose their shirts. A lot of people have.

Mr. **Parker**. Well, that is right.

So, Madam Chairwoman, I have nothing further that I would say at this point in time. I think everything has been covered. The Bill 2672. We have some questions about it, but I will leave that to my associate here, if he wishes to bring that up. That is entirely up to him, but my mind is pretty well fair as to what you are trying to do and I want you to know this, that I want to commend you for what you are doing. We think it is great and it is wonderful, and we applaud you for it, and if we at any time in the future can be of assistance to you, do not fail to call us.

[The prepared statement of Mr. John W. Parker appears on p. 158.]

Miss **Kaptur**. Well, I hope you can start by keeping and helping the folks here in Texas and in the Houston area here and get them to talk, you know, invite them to a cocktail party or something, so they get to see one another once in awhile, and maybe resolve some of this in a less formal way because it sounds like there is a lot of good energy in the room. It just needs to be channeled a little bit.

Thank you, Mr. Parker.

Mr. Richards?

STATEMENT OF RICHARD L. RICHARDS, NATIONAL SERVICE OFFICER, DISABLED AMERICAN VETERANS, HOUSTON, TEXAS

Mr. **Richards**. Madam Chairwoman, I appreciate the opportunity to appear before this committee.

For the sake of brevity and I know you probably have to catch a plane and get out of here very shortly, I would just like to make a couple of comments, if I may, since I work at the Regional Office and I represent these veterans from day-to-day.

Problems that we see in the servicing of loans, both from the lender and also the VA, in the statistics that were provided to you in our prepared testimony that was given to us by the Veterans' Administration, actually there are not 39 employees, it is only seven that is doing the servicing work for 17,000. So, that is completely inadequate. The veterans are not getting the counselling they need towards the possibility of refinancing or refunding of loans.

The new credit underwriting procedure outlined in your bill is great. We need a change here. We represented a lot of veterans where they have had over-payments. The property may have been sold four or five times, paper changed hands, and the veteran gets a notice in the mail, you owe the United States Government $20,000 or more or less.

Miss **Kaptur**. I understand.

Mr. **Richards**.The veteran assumes, because of lack of education, probably that this burden is going to be placed on the individual that purchased the home. The veteran does not get a release of the liability.

The VA and the lenders, we feel, do not adequately elicit information from the veterans when it gets into this procedure. They, like the VA, write to the last known address, when the veteran may be drawing compensation benefits and had the veteran been properly notified, he may have been able to either take the property back or maybe rent it out for a certain amount. It may not be the total amount of his mortgage, but we have had a lot of veterans come in and say I have not had the opportunity to take this home back, and maybe there should be some effort placed in properly notifying these veterans or trying to find out where they reside because once this paper has changed hands three-four-five times, the holder of the mortgage has difficulty in finding the veteran.

Servicing of loans by the lender, we have had a lot of veterans that come to our office to complain in this regard. I heard, it was ironic, Lomas and Nettleton was here and really nothing derogatory about them, but there happened to be a veteran who came into my office, they were trying to service this loan, but the veteran was behind four payments. He offered to pay three and they sent him the three payments back.

Well, they called the big boss. The big boss says, that is not our policy. We feel that they really need to start looking at the servicing of these loans. I am sure the VA will if they have the people to do it, but how many people do you need to service 17,000 veterans delinquent on house payments.

We are at a loss. The majority of debts are not waived by the Veterans' Administration as you are aware. So, these debts keep accumulating interest and these veterans are going to take these debts to the grave with them. We understand there are rumors flying around that in the next 2 or 3 years the Department of Justice is going to be involved in the collection of these debts.

Now, I do not know, but we hear this, you know. We are really worried about the veteran. I think that they should be given every opportunity to keep the property that they are living in. I think that the VA could do a better job and I think the lenders could do a better job, and I think just listening to the individuals that testified at this committee, it seems like they are willing but will they really do it. That is the thing. Can you get money for the VA to put the people in the Houston office and will the lenders work with the veterans and service these loans and this is something that we need to keep monitoring and I hope that in the future these problems will be resolved.

Miss KAPTUR. Thank you, Mr. Richards. We hope that by being here today, maybe we have made a contribution to that, and I know that you will be vigilant. The VA is a wonderful organization.

Mr. RICHARDS. We appreciate you and Chairman Brooks for being down here and giving us the opportunity to testify. This is just a brief testimony. As you are aware, our organization has already appeared before your committee and presented their views.

Miss KAPTUR. Yes, and they did a good job.

Mr. RICHARDS. Thank you.

Miss KAPTUR. Thank you very much.

Mr. Villarreal.

STATEMENT OF JOSE VILLARREAL, DEPARTMENT SERVICE OFFICER, THE AMERICAN LEGION, HOUSTON, TEXAS

Mr. VILLARREAL. Madam Chairwoman and members of the panel, thank you for giving the American Legion, Houston, Texas, a chance to share with you some of our views.

I will also summarize the statement that I sent to your earlier.

Miss KAPTUR. All right. Thank you.

Mr. VILLARREAL. When I started on this little project, I know it is quite a modest study involving fifteen cases that our office was personally involved in, when the veteran came to us for help, these are cases where the veteran came to our organization seeking help to request a waiver of the debt from the Veterans' Administration.

The thing that I learned from looking at my cases was the inordinate very high number of cases that were, seemed to me, just routinely denied. It almost seemed to me like it was just a rubber stamp operation back there, that they were not even reviewing the cases prior to even going into the hearings, and, to me, that was telling me that these people are just denying these cases and not even looking at them, you know. The waivers are being requested and no one is actually reviewing the case before going to a hearing.

Miss KAPTUR. After what you heard today, now you are convinced that is true.

Mr. VILLARREAL. Oh, I know that is true, and also another thing was from my calling around the country to see how these cases are handled in other states, we have representatives in all the states,, I came to find out that in other states, cases that are routinely denied in the VA in Houston are routinely granted in other states with much less of a reason to grant the waiver.

And I say, well, are two different sets of regulations being used in different parts of the country that look at these cases. I know that the VA operates under the same guidelines. Why is, for instance, in Oklahoma, they were routinely, almost routinely granting a case where no notification was sent to the veteran of foreclosure proceedings, and in Houston, we had numbers of cases, bunches of cases like that and they are denied.

Some of these cases have extenuating circumstances where the veteran made every effort to work with the VA and everybody involved or there was fraud involved in a large number of cases. I could not get over in my small little case study involving fifteen cases how many cases involved fraud. Thirty-three percent of the cases and—or five out of my fifteen involved fraud, not on the part of the veteran, on the part of the assumptor or the mortgage company.

Miss KAPTUR. Could you elaborate a little bit about what kind of fraud you are talking about?

Mr. VILLARREAL. Well, yes. In one case, the person or the realtor that sold the home to the veteran filled out all the paper work that is required by the VA and they included fraudulent salary for the wife of the veteran. They said that she earned $12,000 a year and according to the veteran, they did that in order to qualify him for a home. This was a friend of the veteran's and they were just trying to put him in a house and they did, and the veteran was drawing pension and later on, when the VA found out about it, they terminated his pension because they stated he had not reported that money. This was years back and, so, they terminated his pension and they charged him with fraud in that particular case.

I finally convinced the District Attorney's office that the fraud was not on the part of the veteran, that the veteran could barely read. It was on the part of the people that filled out the paper work.

Miss KAPTUR. What did the VA do in all of this?

Mr. VILLARREAL. The last I heard from the IG's office was that they were going to go ahead and grant the waiver, and begin his pension benefits back again. Now, this whole process began about 3 years ago. Since then, he has been just barely existing on little or nothing, and I think, you know, that is just one.

Another case involving the fraud was on the part of this man that has been indicted by the District Attorney's office and they have yet to catch him, I believe. He was getting a veteran to buy a home that he had, not getting a release. The veteran did not obtain a release, and later on, you know, he would just skip town with their money. It was almost like he was renting the property to them and much later, you know, when the veteran made attempts to contact him or the mortgage company, they could not come to any terms or the VA would provide erroneous information, next thing you know, foreclosure goes down.

I have got details on all those cases and but I just could not get over the number of cases like that.

Miss KAPTUR. I hope that you will submit any information you have like that for the record, if we could obtain it somehow. I do not want to put you to a lot of extra work, but any—

Mr. VILLARREAL. I have got it all summarized already.

There was another thing that struck me, was the fact that most of the time when a veteran buys a home or sells a home, they are never really advised as to, you know, getting a release. If they do touch on it, they might just mention it and I have heard some of my veterans say, well, if you go that route, why did you not go that route if you knew about it.

Most of the time, the few that knew about it say, well, they told me it was going to delay the sale or the closing for another X amount of time, you know, and they needed to do it right away or something. But that is usually not the case.

Most of the time, they know nothing about it, they knew nothing about it. The "Selling Your GI Home" pamphlet is not—it seems like it is not presented to the veteran at the right time. It is available at the regional offices, but not at the appropriate locations or instances where they say you should read this carefully before you sign on that dotted line or something. Nothing like that exists now.

But one of the problems that we as service organizations have is with the VA, also the long amount of time that it takes for the VA to process these waiver requests. It just seems like they just drag on forever, and it takes up a lot of our time, it takes up a lot of the veteran's time and, of course, the VA's time.

The average amount of the debts in my study was close to $14,000 and my estimation of what it costs the VA to process these cases, I would say, is much more than that.

I have no details on that, but I think it would be a pretty safe guess on my part that it does cost the VA more than $13,949 to collect each and every one of these debts.

So, my recommendation to the subcommittee is that relief be provided in the form of amnesty to all of the VA loan guaranty debtors, all of those within certain time frames, say, from the time that the recession began in this area. That can be determined by the experts, but, nevertheless, I am afraid unless they do something like that, the government is going to spend twice as much money to collect lesser amounts.

So, that is my recommendation in the area of granting waivers and that concludes my statement.

[The prepared statement of Mr. Jose Villarreal appears on p. 162.]

Miss Kaptur. Thank you, Mr. Villarreal. You suggested some things to us no one else in the United States of America has suggested. So, thank you. We really appreciate that.

Finally, Mr. Hurdle. Thank you for waiting. Last but not least.

STATEMENT OF ED HURDLE, ASSISTANT DEPARTMENT SERVICE OFFICER, VETERANS' OF FOREIGN WARS, HOUSTON, TEXAS

Mr. Hurdle. Thank you, Madam Chairwoman.

The National Organization and I appreciate the opportunity to appear before this panel and express our views.

However, I must admit that I have not very many views for this particular panel to elaborate on as I was notified much too late to prepare anything for the record.

I would, however, like to express the opinion of the Veterans' of Foreign Wars' and myself personally on behalf of the veterans that as Mr. Villarreal so very well stated, we are in a position here in the Houston area where we find throughout the country that waivers are being granted very, very freely with less, how would you put it, less work involved, less time consuming on the veteran and the Veterans' Administration.

We find here in the regional office that they are very time consuming. Sometimes they are costing the veteran very, very long enduring hardships to try to get this thing settled, and we feel that there should be—we are in high condolence with the fact that there should be some new method set up to help alleviate and speed up the requests for waivers.

I would also recommend to the panel, I have stated several different times in several different panels and meetings that I have been to, that I feel that the Veterans' Administration in trying to come up with an offset on these repossessions—we have heard here today, we have heard a lot of comments about the realtors, how they are getting stuck, how they are getting hurt, but we have not heard a whole lot about how the veteran is getting hurt, and I think that to us, as veterans organizations, is our most dominant reason for being here.

We want to prevent the veteran from getting hurt and that is why we are here today, and I think that my suggestion to the panel today would be instead of repossessing these homes, letting them lay out there and get ruined and get tore up and then try to dump them off on the market, why cannot we have a program in the VA to reduce the payments, extend the loan of the house, and maybe then the veteran can afford to live in it.

Thank you, Miss Chairwoman. That is all I have.

Miss **Kaptur**. Thank you, Mr. Hurdle, very much.

Those are welcome comments, and I wanted to say, I am glad that Mr. Myatt and Mr. McReaken from the Veterans' Administration have sat through all of this testimony today. I think that my feeling is that many of these suggestions have fallen on fertile ground and a lot of these changes can be made at the regional level. They do not require more legislation. Where push is necessary, we are happy to give it and I notice there are representatives of the mortgage bankers in the audience and home builders and veterans.

I hope that those organizations recognize the power of organizations in Washington like the Veterans' of Foreign Wars and the American Legion and Disabled American Veterans', and as these gentlemen go to their respective state and national meetings, if they are to take recommendations to us in the Congress, if it comes up through their legislative channels, they have enormous influence and I would hope that as representatives from Texas, that perhaps our being here will also motivate you to get your national organizations allied with us to move both the Administration and this year's and next year's legislative agenda on housing. We can certainly use your help, too, and I feel you can be a special voice in a unique way that almost no other organization in America can be and I speak of all veterans organizations.

I think you can do a real service in influencing the legislative agenda of your national organizations through convention, and I know that they would support many of the things that you have said. In fact, all of them, really. So, I hope you will think about doing that.

Any of you gentlemen want to make another comment?

(No response.)

Miss **Kaptur**. We want to thank you very much. It has been a long afternoon. We thank you for waiting and we would not have come here to Houston if we were not very concerned about what is happening here. There are lots of other places we could spend our time on Friday afternoon, and I think that it indicates the interest, not only of Chairman Brooks, but of our subcommittee, and we certainly want to be helpful. The legislation we have this year, I think it will pass on Monday, it can certainly be refined, improved, strengthened. I want to thank everyone who has testified today, everybody who has waited and listened so patiently, all the staff that have been so good here and helped us put this together and I see some hands in the audience.

Are these questions or comments?

Miss **Geiger**. Comments. There has been one group that has been significantly lacking in testimony, and that is the veterans that are having problems making payments.

Miss **Kaptur**. Yes.

Mr. **Pogue**. We are the only two veterans other than veteran organization leaders that were asked to be here and there was no information put out to the veterans of what was going on. There was no information put out in any TV, radio, except one newspaper. The newspaper had it on Highway 6, which is twenty-five miles in the other direction.

Miss **Geiger**. This is the article out of the newspaper. We just happened to listen to a radio station.

Miss **Kaptur**. Right. I did an interview earlier in the week. I wondered why there were not more veterans here. Generally, we get a lot of veterans. I do not know what happened.

Mr. **Pogue**. A lot of the veterans could not be here at this time of the day. I am a disabled veteran and that is the only reason I was able to even make it out here, was because Chairman Brooks asked me to come. But the thing is we are getting left out. All these mortgage companies and bankers and all the VA directors are the ones that will not work with us. They are the ones that are pushing the veterans into the hot spot.

Miss **Kaptur**. Well, I would be happy to dismiss this panel; and if you all would like to come up here, I am willing to sit through and listen to your concerns before we leave this afternoon.

Thank you, gentlemen, very much.

[Pause.]

Miss **Kaptur**. Feel welcome to come up here. We apologize. All we can do is send out press releases which were done. I thought the media had picked it up since I received a call from a radio station in Washington about 4 or 5 days ago. I would ask you to identify yourselves for the official record.

Miss **Geiger**. Okay. My name is Sherry Geiger. I am from Friendswood, and I am a veteran.

Miss **Kaptur**. All right. Is it G-E-I-G-E-R?

Miss **Geiger**. G-E-R. Right.

Miss **Kaptur**. All right. Which branch?

Miss **Geiger**. Air Force.

Miss **Kaptur**. Air Force. All right. And you, sir?

Mr. **Pogue**. My name is Kenneth Pogue. I am from League City, Texas. I am presently Junior Vice Commander of the American Ex-Prisoners of War here in Houston. I am an Army veteran.

Miss **Kaptur**. Army veteran. All right. It is very good to have you with us this afternoon, and we will begin with Miss Geiger and you should just proceed if you want to tell us your story.

STATEMENT OF SHERRY GEIGER, AIR FORCE VETERAN, FRIENDSWOOD, TEXAS

Miss **Geiger**. Well, not so much that as I was going to make some suggestions, too, about what can be done—with the Veterans' Administration and what we can be helped with. I think the main thing is veteran education.

You know, there seems to be an assumption that veterans are like little children and we have all got to take care of them. The VA has got to take care of us and the mortgage companies have got to take care of us, when in actuality we are responsible people.

We served in the Armed Services of the country and we were talking earlier about that 45 percent of the foreclosures on veterans homes were walk-outs.

Well, the veterans did not walk out of the country and they would not have walked out on their homes either except they did not know the options that were available for them. So, I am really very much interested in veteran education because we have had to really search to find out how we know about the foreclosures and all the information on veterans mortgages and so on and so forth. I think if the veteran were seen as a partner in this situation and not just one who benefits or, if we were taken into a partnership with the mortgage bankers and with the Veterans' Administration, then—

Miss Kaptur. You do not serve then on this Advisory Council that they set up here?

Miss Geiger. No. No. We just happened to have problems with our mortgage because of illness and some other things. We did not know about anything the VA might do until my husband went to a seminar on foreclosure, (we are not to that point, but we have some in arrears), that was advertised over one of the radio stations on VA foreclosure.

I had heard about this hearing on the radio and he got additional information there and that is why we are here.

Miss Kaptur. I am really glad you are here.

Miss Geiger. Well, I think if other veterans knew of this hearing, more would be here. A lot of this stuff goes on, we are bombarded daily, we have got three television stations that are major network stations here in town, we have got two major newspapers, and an untold number of radio stations, and we are bombarded, and if you just do not happen to be tuned in at the same time—at the right time, you are going to miss something.

Miss Kaptur. That is how Congress is, too. Sometimes if you do not go to the right cities and listen to the right people, you can produce the wrong kind of legislation.

Miss Geiger. And, you know, I realized that you would probably be bombarded yourself if you had had as well disseminated as the veterans would have liked to have seen it.

But, I think veteran education is one of the keys as the veterans do not want to walk out.

Miss Kaptur. That is why I feel servicing is so important. I get a little bit worried when I hear there are 17,000 delinquent loans just here in the Houston area. And if we increase the staff by whatever the number was, 27——

Miss Geiger. I offered to go to work for them.

Miss Kaptur. They may be looking.

Miss Geiger. But I think that is the main thing, is get the veterans involved, because just as they did not walk out on the responsibilities that they had, that they felt to their country, they feel a like responsibility or a greater responsibility to their families.

Miss Kaptur. My own sense is in other parts of the country, for instance, in my own home community, we had terrible problems with the VA in getting decent medical services to veterans in our community. It was not until I got all the service organizations together and brought in the right people from the VA, we literally developed a program to identify which services were needed and how the VA would do that. They were flexible and they were willing to work with us; but we literally had to put them all in a room and we had to make it happen somewhat as in the same way here. I think it is just because they get so involved.

The squeaky wheel gets the grease, right? So, you identify a problem and then the system tries to move to solve it. We could never have done it without the veterans groups because they really know their membership. Are you a member of any of the service—

Miss GEIGER. No.

Miss KAPTUR. Then, that is another problem. Unorganized, right? The majority, 90-some percent of the veterans, are not members of service organizations; and, so, it is more difficult to impact the system.

Miss GEIGER. Well, another thing that comes up with veterans being partners in this, is notification and the excess of paper work of early notification, of how the VA is getting thousands of notifications at 60 days or whatever the veterans are going into default, and that paper work. Well, if the veteran were taken out as a partner, the veteran would know better their financial situation than anyone else and if they had a way of notifying the VA, if they had some people they could call with the mortgage bankers and the Veterans' Administration to let them know, it would be up to a certain point, you know, say for the first 90 days or the first 180 days even, would be the veteran's responsibility to get with the Veterans' Administration and that would take the load off of them and it would also help out the veteran themselves because if they were well educated, but again we are coming back to veteran education.

Miss KAPTUR. Well, when they were saying today about developing a consistent set of regulations or new regulations that would govern this whole process, that could be some type of notification. We are not trying to develop the atom bomb. I mean, we have a problem that is fairly discreet. You can put the right people together and you can develop an approach that would solve the problem for notification, if we could get the regional office to work with the veterans and with the various organizations that are concerned here.

It seems to me to be a solvable problem at this level.

I wanted to ask you, sir, did you have something you wanted to say? Did you want to give us any comments?

STATEMENT OF KENNETH POGUE, JUNIOR VICE COMMANDER, TEXAS GULF COAST CHAPTER, AMERICAN EX-PRISONERS OF WAR, LEAGUE CITY, TEXAS

Mr. POGUE. Yes, ma'am. I am a disabled veteran and I have talked with them (DAV) and I am familiar with Mr. Villarreal and Mr. Richards and Mr. Myatt, and I have a unique situation, I guess, in that as a disabled veteran, I am not able to work and like some veterans that may have lost their jobs either at NASA or one of the refineries, or other industries. They have an opportunity to go and seek another job some where else or training and they can regain their income.

With myself, as a disabled veteran, I cannot, and my situation is that my pay got cut and Congressman Brooks has been nice enough to try to help out and is in the process of helping, and—but it has been a long process. It has been 18 months and the paper work is still fouled up somewhere in the VA system.

The regional office, the hospital, nobody knows where anything is, who is responsible for it, and that we get these nice treatment, we are going to check into—we are checking. I am aware that the people that I have talked with have been looking into it, have been trying, and they cannot even find out, they are the guys that are in charge. Last week, to top it all off, I got a letter, a certified letter, from the county municipal utilities district saying that they are going to file foreclosure on Aug. 4th because the taxes have not been paid. One of the years that the taxes were not paid was whenever I did not even own the house. It was the Veterans' Administration house. It was a foreclosed home, and come to find out that the taxes are sitting somewhere at somebody's account somewhere at the VA but it is not being paid. I paid my payments, except for because of the cut in pay, I am doing the best I can to make my payments, which have—because of the loss of disability rating from a 100 percent to 70 percent, which is sounds like a 30-percent cut, but it is not. My pay went from $1,500 to $700, $750.

My house payment, because I lost my disability exemption through the tax offices, my house payments have gone up to $739 and with my $490 of social security, after paying $200 electric bill and water bill, I have about $100 left to buy groceries for a family of four. The veterans try to get help, they try to talk with people at the Veterans' Hospital or the Veterans' Administration.

Miss KAPTUR. Do you belong to a service organization?

Mr. POGUE. Yes, ma'am. I belonged to several of them, but, unfortunately, two of them I had to drop because I was not able to afford my dues, but the Disabled Americans and American Legion, they try to do everything they can but like I said, it has been 18 months on my disability. I am afraid to think how long it is going to take with them trying to get the taxes paid, so that I do not get filed on.

Miss KAPTUR. Is Congressman Brooks looking into this?

Mr. POGUE. Yes, ma'am. But the thing is there are other veterans that are in this same situation. We try to get information but nobody has—nobody wants to give it or nobody knows who to get it from.

Miss KAPTUR. Unfortunately, one of the jobs of a congressional office is trying to cut through red tape. You know, it is an amazing thing to me. I cannot speak for my good friend, Jack Brooks, but I know in my district office, since I was first elected 5 years ago, we have helped over 14,000 families. Now, I have to have special people in my congressional office just to deal with the very kind of problem. Here, I am supposed to be legislating on whether we flag foreign ships in the Persian Gulf and there are people in my district that are hungry, that have ended up on my door step. That is part of my job and it is part of his job.

Is it not incredible in America in 1987 that you cannot get service from the agency that is supposed to be giving it, that you have to go to a political official for intervention? I know that it has turned out to be part of our job, but——

Mr. POGUE. Like she said, the information, getting it out, there are three stations (if you have a cable system), there are three information channels, to get information on things like classes, seminars, community meetings, and a school class reunion and the like. Nothing was on them.

There is the—about 3 hours of news in the morning, there is about 3 hours in the evenings and one hour late at night, and it is rebroadcast again several times, but nothing on tv, nothing on radio that I have heard.

The only way I heard about it, I just asked Congressman Brooks' office, asked me to be here.

Miss KAPTUR. Yes. He sent out news releases and everything. We have a free press. They can decide what to or not to put in the paper. Sometimes we prefer they not put the things in the paper that they put in the paper, and they do not cover important stories.

Mr. POGUE. But it is getting the information to the veterans.

Miss KAPTUR. Well, all I can say is—

Mr. POGUE. A lot of the veterans tell me, the VFW and the American Legion and with the Ex-Prisoners of War, they would rather do anything else but to have to go and deal with the Veterans' Administration and the Veterans' Administration Medical Center because if you are just going in to get a prescription changed or refilled at the Medical Center, you can at least count on anywhere from eight to 10 hours and then you might have to come back the next day, before anything gets done.

If you go to the regional office, you can wait an hour or two and get seen, but then it may be 18 months later before anything is done.

Miss KAPTUR. There are tremendous pressures and this is not a hospital and health care subcommittee hearing; but I served on that subcommittee for veterans for awhile. I was over at your hospital today. The people that work there are simply over-worked for the amount of resources. The budgets, the VA's budget, over the past 7 years has not been increased in real terms at all.

I find it incredible when I look, and I know Armed Services and the Defense industry is very important to the State of Texas. I think if the American people really understood the fact that we have not kept our commitment to veterans, the people who actually fought and served, and we are putting more money into hardware and we are forgetting the commitment that we made to the people who served our country, I do not think the American people would stand for it for a minute.

Mr. POGUE. It is not just the Veterans' Regional Offices that is to blame, because they have enough work as it is and then the Congress passes the Gramm-Rudman law that has been cutting benefits or cutting the budget and they cut the veterans. The Veterans' Administration's staff was over-worked with the staff that they had, and now the ones that they have are more over-loaded—it is just a chain reaction and like they were saying, there are 17,000 homesand seven people to work on them.

That is about the same way with not only the foreclosure section which I am scared about right now, but any of the other sections. It is putting an undue stress on even the veterans that work at the Veterans' Administration.

Miss KAPTUR. It is hard to maintain good people. We have a nursing shortage all over this country. I was just talking to the chief of medical services at this VA hospital about how we are going to get good nurses into the VA system. We cannot recruit them and we cannot keep them, and the nursing director from this VA Hospital went down to Puerto Rico to recruit nurses to work here.

We have a shortage of nurses all over the country, but I am just telling you that if you really look at the priorities of how you maintain an Armed Forces under a voluntary service system, you only keep them there with good benefits and by keeping your commitment to them because they served. During my 5 years in Congress, we have fought cuts in a system that is already over-burdened, where our World War II and Korean population is aging. They are coming into the system and it is bursting at the seams. That is what is happening all over this country, and I do not think that provides for a strong defense because our chief line of defense is our people and we are not keeping our commitment.

Mr. POGUE. My two sons are concerned. One wants to go to Texas A&M in the ROTC and go into the military as an officer in the Army, and the other one wants to go to the Air Force Academy, but they are seeing what is happening to their dad and they are sitting there wondering if it is worth it.

Miss KAPTUR. I know.

Mr. POGUE. And what I would—

Miss KAPTUR. That is what our fight is about. That is what our fight is about here.

Sir, did you have something that you wanted to say?

I want to thank you very much for having the courage to sit through the meeting and to come up here and you were not nervous after you first started to talk. See, it is not that hard to testify before members of Congress, and we will do our best to produce a bill that will be a responsible bill and will meet the needs of veterans. All I can say as far as when the system does not work, there is an expression that the price of liberty is eternal vigilance, and nothing happens in our country unless citizens keep involved. Even though it gets frustrating, it gets frustrating for members of Congress, too. You just have to keep trying to impact on the system and your contributions and statements do make a difference. We will take them back to Washington.

Mr. POGUE. We would like to invite you back and be able to invite, we hope that you would be able to invite more of the veterans so that they can explain what is going on with them.

Miss KAPTUR. Well, we hope that the service organizations that are here will get the word out to the people who are members of those organizations through their newsletters. We certainly hope that some of the press here will help carry the message, and I know you will help carry the message.

Mr. POGUE. Thank you very much for coming to Houston.

Miss KAPTUR. Thank you very much.

We have enjoyed this meeting very much.

The subcommittee is adjourned.

[Whereupon, at 4:45 p.m., the subcommittee was adjourned.]

APPENDIX

HON. MARCY KAPTUR, CHAIRWOMAN
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
July 31, 1987 -- Houston, Texas

THE SUBCOMMITTEE WILL BE IN ORDER.

FIRST, I WOULD LIKE TO TAKE THE OPPORTUNITY TO THANK CONGRESSMAN JACK BROOKS FOR INVITING THE SUBCOMMITTEE TO HOLD A HEARING IN HOUSTON. HOUSTON HAS EXPERIENCED A FORECLOSURE RATE AMONG THE HIGHEST IN THE COUNTRY AND IS RANKED #1 FOR VA FORECLOSURES.

AS AN EXAMPLE, THE STATE OF TEXAS EXPERIENCED 7,338 FORECLOSURES IN FISCAL YEAR 1986, AND 6,949 TO DATE IN FISCAL YEAR 1987. APPROXIMATELY 70% OF THESE, HOWEVER, OCCURRED IN THE HOUSTON AREA. NATIONWIDE, THE VETERANS ADMINISTRATION HOLDS TITLE TO 20,291 PROPERTIES. 23.4% OF ALL OF THESE PROPERTIES ARE IN HOUSTON.

OVER THE LAST FOUR MONTHS, THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS HAS HELD FIVE HEARINGS ON THE VETERANS ADMINISTRATION HOME LOAN GUARANTY PROGRAM BOTH IN WASHINGTON AND IN THE FIELD. WE HAVE HEARD FROM A BROAD CROSS-SECTION OF THE PUBLIC, INDUSTRY, GOVERNMENT, VETERANS GROUPS AND MEMBERS OF CONGRESS. TESTIMONY FROM THESE WITNESSES ADDRESSED THE GENERAL STRENGTHS AND WEAKNESSES OF THE PROGRAM, AS WELL AS SPECIFIC LEGISLATIVE AND OVERSIGHT ISSUES. THESE INCLUDED THE VA APPRAISAL PROCESS; PROPOSALS TO ASSIST HOMELESS VETERANS; VA LOAN SERVICING AND FORECLOSURE PROCEDURES, INCLUDING POLICIES ON "NO-BID" PROPERTIES; PROPERTY MANAGEMENT; ADEQUACY OF THE CURRENT GUARANTY FORMULA; ADJUSTABLE RATE MORTGAGES AS WELL AS PROPOSALS CONTAINED IN THE PRESIDENT'S FISCAL YEAR 1988 BUDGET SUBMISSION.

BASED ON THESE HEARINGS, WE DEVELOPED H.R. 2672 SPECIFICALLY IN RESPONSE TO THE CONCERNS AND ISSUES THAT WERE RAISED. THIS BILL CALLS FOR IMPROVEMENTS FROM TWO PERSPECTIVES -- ASSISTING VETERANS IN PURCHASING HOMES AND HELPING VETERANS KEEP THEM.

AS IS STATED EARLIER, HOUSTON HAS EXPERIENCED A FORECLOSURE RATE AMONG THE HIGHEST IN THE COUNTRY. MY BILL, THEREFORE, WOULD REQUIRE THE VA TO PROVIDE MORE EFFECTIVE SERVICING WHEN A LOAN GOES INTO DEFAULT. AT A MINIMUM, VETERANS ARE TO BE ADVISED OF THE ALTERNATIVES TO FORECLOSURE THAT MAY BE AVAILABLE TO THEM, INCLUDING VOLUNTARY DEEDS-IN-LIEU OF FORECLOSURE. IN ADDITION, THE BILL ESTABLISHES A MORTGAGE FORECLOSURE RELIEF PROGRAM TARGETED TO VETERANS WHO HAVE EXPERIENCED DEFAULT THROUGH NO FAULT OF THEIR OWN.

IN ESSENCE, THE BILL WOULD AUTHORIZE THE ADMINISTRATOR TO MAKE LOANS FOR THE PURPOSE OF PROVIDING MORTGAGE ASSISTANCE AND THEREBY PREVENTING FORECLOSURES UP TO A MAXIMUM OF $8400 TO VETERANS OR THEIR SURVIVING SPOUSES, IF CO-OBLIGORS, IF THEY ARE UNEMPLOYED, HAVE SUFFERED A SUBSTANTIAL REDUCTION IN HOUSEHOLD INCOME AND HAVE PREVIOUSLY GUARANTEED VA HOUSING LOANS WHICH ARE AT LEAST SIX MONTHS DELINQUENT.

THESE LOANS WOULD BE SET UP AS ESCROW ACCOUNTS IN LENDING INSTITUTIONS AND WOULD HAVE TO BE REPAID DURING SUCH TIME AS MAY BE SET BY THE ADMINISTRATOR, BUT IN NO EVENT LONGER THAN 15 YEARS.

IN ADDITION, MY BILL WOULD ALSO MODIFY THE VA'S PROPERTY ACQUISITION GUIDELINES IN RESPECT TO THE CALCULATION WHICH THE VA MAKES WHEN DETERMINING WHETHER A PROPERTY WILL BE TREATED AS A NO-BID CASE. UNDER THE NEW FORMULA, INTEREST RESULTING FROM EXERCISE OF LENDER FOREBEARANCE AT THE VA'S REQUEST, DELAYS IN THE FORECLOSURE PROCESS CAUSED BY THE VA, OR COMMENCEMENT OF VOLUNTARY BANKRUPTCY PROCEEDING BY THE VETERAN, WILL NOT BE INCLUDED IN THE NO-BID CALCULATION. WE DEVELOPED THIS LANGUAGE IN CONJUNCTION WITH RECOMMENDATIONS OFFERED BY THE MORTGAGE BANKERS ASSOCIATION IN WASHINGTON.

THE BILL IS SCHEDULED FOR FLOOR CONSIDERATION ON MONDAY.

WE ARE HERE TODAY TO LET YOU KNOW THAT WE ARE AWARE OF HOUSTON'S PROBLEMS AND ARE TRYING TO DO SOMETHING ABOUT IT. WE ALSO WANT TO HEAR DIRECTLY FROM YOU ON HOW THE PROGRAM IS WORKING AS WELL AS YOUR RECOMMENDATIONS FOR IMPROVEMENTS.

Statement of Congressman Jack Brooks
before the Subcommittee on Housing and Memorial Affairs
of the House Committee on Veterans' Affairs
Houston, Texas
July 31, 1987

MADAME CHAIRWOMAN [AND SUBCOMMITTEE MEMBERS], WELCOME TO HOUSTON. I APPRECIATE YOUR COMING HERE TO HOLD THIS HEARING ON THE VETERANS ADMINISTRATION'S HOME LOAN GUARANTY PROGRAM.

SINCE ITS INCEPTION IN 1944, THIS HIGHLY SUCCESSFUL PROGRAM HAS HELPED OVER 12 MILLION VETERANS ACROSS THE COUNTRY BECOME HOMEOWNERS. TODAY, HOWEVER, MANY HOMEOWNERS IN SOUTHEAST TEXAS -- VETERAN AND NON-VETERAN ALIKE -- ARE UNDERGOING DIFFICULT TIMES BECAUSE OF THE SEVERE ECONOMIC CONDITIONS CAUSED BY THE DRAMATIC DROP IN OIL PRICES. MORE THAN 200,000 JOBS IN THE AREA HAVE BEEN LOST AND THE FORECLOSURE RATE ON HOMES IS ONE OF THE HIGHEST IN THE NATION.

IN SHORT, SOUTHEAST TEXAS IS FACING A HOUSING CRISIS. MOUNTING FORECLOSURES LEAD TO DEPRESSED PRICES, WHICH IN TURN LEAD TO MORE FORECLOSURES AND FURTHER DECLINE IN PROPERTY VALUES. THIS VICIOUS CYCLE IS DESTABILIZING OUR NEIGHBORHOODS AND REDUCING THE TAX BASE FROM WHICH CITY AND COUNTY GOVERNMENTS FINANCE ESSENTIAL PUBLIC SERVICES.

UNFORTUNATELY, SOME VETERANS WHO PURCHASED THEIR HOMES UNDER THE HOME LOAN GUARANTY PROGRAM ARE -- THROUGH NO FAULT OF THEIR OWN -- FREQUENT VICTIMS OF THIS CRISIS. VETERANS NEED AND DESERVE HELP FROM BOTH THE CONGRESS AND THE VETERANS ADMINISTRATION. H.R. 2672, WHICH WAS REPORTED OUT OF THE VETERANS' AFFAIRS COMMITTEE WILL HELP; PARTICULARLY, THE SECTION WHICH AUTHORIZES LOANS TO VETERANS FACING FORECLOSURE. OTHER LEGISLATIVE CHANGES MAY BE DESIRABLE. HOWEVER, NEW LEGISLATION ALONE WILL NOT PROVIDE ALL OF THE ASSISTANCE NEEDED. THE VETERANS ADMINISTRATION MUST DO ITS PART THROUGH IMPROVED LOAN SERVICING AND PROPERTY DISPOSITION.

I AM CONCERNED THAT THE VETERANS ADMINISTRATION HAS NOT BEEN COUNSELING VETERANS ON THE FINANCIAL ASSISTANCE OPTIONS AVAILABLE TO HELP THEM AVOID FORECLOSURE. FOR INSTANCE, EVEN THOUGH THE VETERANS ADMINISTRATION CAN REFUND DELINQUENT LOANS AND ESTABLISH A REPAYMENT PLAN BASED ON ABILITY TO PAY, THE GENERAL ACCOUNTING OFFICE FOUND THAT THE HOUSTON REGIONAL OFFICE LAST YEAR REFUNDED ONLY 7 LOANS WHILE LENDERS FORECLOSED ON MORE THAN 5,600.

I AM ALSO CONCERNED ABOUT THE EFFECT OF THE INCREASED USE OF THE "NO-BID" PROCEDURE, WHERE THE VETERANS ADMINISTRATION PAYS THE GUARANTY ON A DEFAULTED LOAN AND THE LENDER ASSUMES TITLE TO THE PROPERTY. THIS PRACTICE IS NOT ONLY A DISINCENTIVE TO THE LENDER TO WORK WITH THE VETERAN HOMEOWNER WHO IS DELINQUENT TO SAVE HIS HOME, BUT LEAVES THE VETERAN WHO HAS LOST HIS HOME EVEN FURTHER IN DEBT, AND WILL UNDOUBTEDLY DISCOURAGE MANY LENDERS FROM FUTURE PARTICIPATION IN THE HOME LOAN GUARANTY PROGRAM.

AND FINALLY, I AM TROUBLED ABOUT THE VETERANS ADMINISTRATION'S INDISCRIMINATE USE OF AUCTION SALES TO DISPOSE OF REPOSSESSED PROPERTIES. THIS PRACTICE HAS CONTRIBUTED TO THE ACCELERATED DETERIORATION OF PROPERTY VALUES. IT ENCOURAGES OTHER HOMEOWNERS TO STOP MAKING PAYMENTS WHEN COMPARABLE HOUSING IN THEIR NEIGHBORHOODS SELL AT AUCTION FOR A FRACTION OF THE AMOUNT OF MORTGAGE BALANCES. THE PROSPECT OF ADDITIONAL AUCTIONS WILL ONLY PROLONG THE WEAK HOUSING MARKET WHICH CURRENTLY EXISTS.

MADAME CHAIRWOMAN, THANK YOU FOR YOUR KEEN INSIGHT INTO THE IMPACT THIS HOUSING CRISIS HAS HAD ON OUR AREA. I APPRECIATE YOUR COMPASSION AND PRAGMATIC BUSINESS JUDGMENT THAT INSISTS ON EQUITY FOR ALL SEGMENTS OF THE HOUSING INDUSTRY, WHICH IS ESSENTIAL IF WE ARE TO CONTINUE TO HAVE VIABLE GOVERNMENT HOUSING PROGRAMS -- PROGRAMS WHICH HAVE ENABLED MILLIONS OF AMERICANS TO SEEK THE AMERICAN DREAM AND OWN THEIR OWN HOMES!

STATEMENT OF
TED W. MYATT
DIRECTOR, VETERANS ADMINISTRATION REGIONAL OFFICE,
HOUSTON, TEXAS,
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
JULY 31, 1987

MADAM CHAIRWOMAN AND MEMBERS OF THE SUBCOMMITTEE:

It is my distinct privilege to appear today before this distinguished subcommittee to discuss the condition of the VA Loan Guaranty program in southern Texas.

First, since you are our visitors, let me give you a very brief description of the regional area for which the Houston Regional Office has jurisdiction. Basically, we administer the Veterans Benefits program for the southern part of the State of Texas, while our sister office in Waco covers the northern half. Ours is one of the VA's larger regional office jurisdictions in terms of area. For example, the highway mileage from Brownsville at the southern tip of Texas to Lufkin on our area's northeast corner is about 500 miles. The area contains two of the nations major cities - Houston which ranks 4th in size and San Antonio which occupies 10th place. Diversity characterizes the region. For example, The Rio Grande - border region is a different world completely, culturally and economically, from the bustling upper Gulf coast of Texas or the rural piney woods of East Texas. The Hispanic influence is highly important. Beginning with San Antonio in the west, the Hispanic percentage of the total population ranges from 50% to the ninety percentile range in the border area.

The VA loan guaranty program has been a significant force in the growth and overall economic development of southern Texas. Since the program's inception at the end of World War II, 484,100 housing loans totaling $13.3 billion have been guaranteed for Texas veterans in the Houston regional area. A popular program here, this office has had for a number of years one of the largest and most active loan guaranty operations in the system. Presently, 119 employees are assigned to the Loan Guaranty Division out of a total regional office force of 406, placing Houston third in terms of the number of loan guaranty employees in the regional offices.

During the boom years of the seventies and early eighties, the focus of the program in Houston was, of course, on loan origination, commonly referred to as the "front-end" of the program. Unfortunately, beginning with the collapse of the oil market in 1982, the emphasis has shifted dramatically to the "back-end" of the operation with ever increasing emphasis on property acquisition and sales.

The economic downslide began first in the Houston - upper Texas Gulf Coast area, heavily dependent on the fortunes of the oil industry. While still at its most serious here, this economic malaise has now spread throughout the regional area, effecting housing markets in practically every section.

It would be difficult to overestimate the disastrous impact of this situation on local housing markets. As housing values plummeted, an ever increasing number of people began to walk away from their homes. Beginning in 1985, foreclosure rates reached all time record levels in many areas. Here again the populous Houston area, with its vast number of VA guaranteed properties, seemed the very hardest hit.

I am not aware of any optimistic predictions by economists of an early turn around in the economic situation. The consensus is that recovery will be slow. Likewise recovery in the housing markets, particularly in places like Houston, is placed generally in the 5 to 10 year range. Somewhat more hopeful are the estimates concerning a leveling off or downturn in foreclosure rates in the Houston area beginning perhaps during the latter part of this calendar year. While we hope such predictions are accurate, we see nothing yet in information available to us to indicate such a trend.

The following figures will provide some insight into the foreclosure situation in our regional area for the first nine months of this fiscal year as well as our property sales for the same period:

	Number of Defaults Reported	Number of Defaults Pending
October	1,258	13,990
November	1,164	14,163
December	917	13,930
January	1,657	14,745
February	2,240	16,043
March	2,726	17,372
April	1,395	17,540
May	852	17,051
June	1,410	17,902
Fiscal Year To Date TOTAL:	13,619	17,902

	Number of Properties Acquired	Number of Sold Properties
October	317	215
November	209	265
December	275	334
January	224	266
February	425	318
March	483	289
April	320	361
May	316	301
June	479	531
Fiscal Year To Date TOTAL:	3,048	2,880
Average Per Month:	339	320

The total number of properties in title at the Houston Regional Office as of June 30th was 4,749. Properties pending title numbered 3,077. Of the Agency's 20,291 properties in title on June 30, 1987, the Houston total represented 23.4%. An estimated 50% of the regional office inventory is in the greater Houston area.

The work overload generated by this situation has, of course, placed unusual and ever increasing strains on this regional office for a period approaching five years. Permit me at this point to express my extreme pride in the employees of the Houston Regional Office who have kept a "heads up" attitude through this long and trying period. They have persevered and face the challenges ahead with determination.

Despite the gloomy scenario which I have outlined, I see a number of positive factors which give me real encouragement. I now see a definite commitment by the Department to bring to Houston the necessary resources to deal with the problem, insofar as such resources are available. We have received additional FTE on two occasions during the past year. More FTE seems assured in the near future as it is available to the Department. Badly needed ADP equipment has been provided for the Loan Guaranty operation. Scarce overtime and contract dollars have arrived in ever increasing amounts. Two task forces have been recruited by Central Office and sent to Houston during the past 14 months to work for periods up to three weeks on specific problem workloads. I am confident that the Department has the understanding of our situation and the determination to assist in so far as is possible.

Barring a turnabout in the economy I know of only two basic ways the situation in Houston can be addressed. First, by providing even more resources to deal with a badly out-of-line situation. As I have indicated, I am pleased with the support we are now receiving in this regard. Secondly, we must do the very best job possible at the regional office level of effectively and innovatively handling a most unusual situation. Often, traditional methods will not work adequately when applied to a situation such as ours. We concentrated this fiscal year on improving property sales. Many new and innovative concepts have been adopted such as more realistic pricing policies, public bid openings, more aggressive sales tactics including public auctions and an overall closer liaison and working relationship with real estate brokers particularly in the Houston market. We have had invaluable assistance in this regard from the Houston Advisory Council whom I understand you will hear later in this hearing. Many of the ideas on improved sales methods which we have adopted had their genesis with our Council. Also critically important has been the advice and assistance of the Loan Guaranty Service in VA Central Office which has worked closely with us in adopting and implementing many new approaches.

Coupled with the additional resources which I have previously discussed, this emphasis on sales and the new concepts which have been adopted have produced most satisfying results thus far in FY 1987. The sales to acquisition ratio has improved from 45.01% in FY 86 to 94.5% through June of FY 87. This has greatly minimized the net property increase in our inventory. Particularly pleasing is our June 1987 sales record of 531 properties (see figure on page 2). This exceeds by 170 our previous monthly sales high. As our methods are further refined by experience, we expect to reach a sales/acquisition ratio of at least 110% by the end of the fiscal year and to exceed that in FY 88. We plan also to substantially reduce our older properties (over 12 months) through aggressive sales techniques by fiscal year's end.

While continuing our emphasis on property sales, we plan to use this same aggressive approach in the loan servicing area during the months to come. We believe much can be done to cut down foreclosures by effective counseling and other available alternatives.

In this connection we plan to stress to mortgage lenders the full range of their servicing responsibilities. This will be accomplished mainly through workshop sessions with management and loan servicing personnel of our lenders. The emphasis will be on the various alternative relief measures available to avoid foreclosure. We believe an active role of guidance and instruction by VA will greatly increase effective servicing by mortgage lenders.

While many defaults cannot be avoided, many others can be if the emphasis is made. Again, this requires resources mainly in the form of people to do the servicing. It also requires a definite local management commitment. With the FTE recently received and the hope that more will be forthcoming, we intend to make this our next major emphasis in our loan guaranty program.

In summary, we feel a great deal more confident about out situation at this point and firmly believe we will continue to improve our effectiveness in dealing with one of the agency's most troublesome situations in the loan guaranty field.

Madam Chairwoman, this concludes my formal remarks. I thank the Subcommittee for this opportunity to appear. I will be pleased to answer any questions which you may have.

AMERICAN
MORTGAGE COMPANY

July 23, 1987

Mrs. Marcy Kaptur
Chairwoman
Subcommittee on Housing
and Memorial Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mrs. Kaptur:

We are honored to have the opportunity of making this presentation and recommendations on veteran housing and financing to you and the distinguished members of this Subcommittee. We appreciate the many hours of hard work that this Subcommittee has expended on behalf of the VA Home Loan Guaranty Program and the time which you have taken from your extremely heavy schedules to bring this Subcommittee to Houston, Texas.

We also express our gratitude to Chairman Jack Brooks for his support in this hour of need.

On April 22, 1987, Allen W. Holton, Executive Vice President of American Mortgage Company, appeared before this Subcommittee as my designee and, at that time, we presented to this Subcommittee the problems that we at American Mortgage Company felt should be brought to the attention of this Subcommittee if the Home Loan Guaranty Program was to remain viable. At that time, we asked for your help and still need your help in solving the problems which threaten the continued existence of the Home Loan Guaranty Program in Texas in general, but Houston specifically.

At that time, we presented testimony which basically broke the problem down into three specific areas. The first of those areas was the destruction of real estate values as a result of the indiscriminate disposition of real estate by use of no minimum bid auction. We secondly pointed out to this Subcommittee the impact of the Veterans Administration's "no bid" on both the veteran borrower as well as the lender/servicer. Thirdly, we pointed out the need for the cooperation of the Veterans Administration to assist the lenders in preventing foreclosures and developing a secondary market through GNMA for loans which were restructured, thereby enabling veterans to maintain their homeownership.

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Subsequent to our appearance before this Subcommittee, the General Accounting Office, testified before this Subcommittee on basically the same format which was presented by American Mortgage Company and, in our opinion, the General Accounting Office testimony only proved to highlight the problems on which we had previously testified.

In our original testimony, we testified specifically concerning the VA auction proceedings, however, HUD and others are also conducting auctions on the same basis and with the same effects on real estate values. The General Accounting Office, in their report(*), specifically points out that, as a result of properties disposed of by auctions, the VA has only realized approximately 44¢ on the dollar of their listed prices. In addition, the General Accounting Office makes specific reference to a price war which exists between FHA and VA in areas where they are competing for sales of real estate, and such competition has led to substantial reductions in the ultimate sales price which not only destroys subdivisions, but also raises the question as to whether the actions of both VA and FHA are in the best interests of each respective program and the taxpayer who ultimately must bear the responsibility for deficits that are created by these programs. Specifically, through reduced prices received through disposition of property, the revolving fund of the VA receives less money to assist in funding the program as well as to assist distressed veteran borrowers who have been placed in financial difficulty by circumstances beyond their control. Detailed information will be presented before this Subcommittee by the Rice Center concerning the results of auctions which have been held by the Houston office since their inception. While this information may be redundant, we feel that it is so important that it cannot be repeated often enough.

Fiscal Year	Number of Units Offered	Number of Units Sold	Total Sales Price	Average Price per Unit
6/85	200	200	$4,982,000	$28,469
2/86	249	249	$5,640,750	$22,654
4/87	297	297	$7,339,000	$22,721
6/87	360	360	$4,228,900	$12,586

It is hard to imagine that real estate values have, in fact, declined to this level in the markets which come under the jurisdiction of the Houston office of the Veterans Administration.

The VA no bid crisis is a direct result of reduced real estate values and if auctions persist, which drive real estate values lower, we can only anticipate that, under the current arrangements, VA no bids will increase in substantial numbers in the

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(*) GAO Testimony dated May 13, 1987, page 10, paragraph 3.

Houston area. It is unrealistic to think that the results of sales which are below normal market will not have future impact on real estate values in the area in general. This results in deficiencies for the veteran borrower which, in our opinion, are unreasonable and unnecessary if order was restored to the real estate market. We have previously discussed the additional exposure to the veteran borrower created by the Deficit Reduction Act of 1984 which, at a point in time in the future, must be addressed by the veteran and the Internal Revenue Service.

We are vitally concerned that the Veterans Administration is not providing counseling for delinquent borrowers, nor are they making available by informing the veteran borrower of the relief programs which are currently available. We were shocked to learn, through the GAO report(*), that in excess of 5,600 properties were foreclosed in fiscal year 1986, while only 7 veteran borrowers were extended relief by the Houston office.

As a result of the findings of the GAO, we have increased our counseling activities on delinquent veteran borrowers and have been recommending that they contact the local office to discuss what relief may be available to them. In our efforts to ensure the feasibility of extending relief, we have been obtaining financial and credit information from those delinquent borrowers who we have counseled and have referred these packages to the local office. However, we have been advised by the local office that it is not necessary for us to obtain this information but simply refer the veteran to the VA office, specifically the Loan Service and Claims Group. Servicers of VA insured mortgages are willing to go to the extra effort to reduce the amount of time which is required for consideration for forbearance on a delinquent account if it will expedite a decision as to whether or not relief should be granted.

A new assistance program has been made available under HR2672, offered by the Chairwoman of this Subcommittee, which would provide an alternative to total refunding and should be looked upon as a very valuable tool in assisting veterans in maintaining home ownership during short term economic problems. However, based on past experience, we are skeptical as to whether or not this program, or existing programs, will in fact be used to reduce foreclosures. The GAO in its report indicates that, where the refunding program has been made available, the success ratio has been extremely high and that the benefit to the VA from each "successful refunded loan would be sufficient to offset the additional foreclosure costs to refund six loans that subsequently fail".(**) Given these statistics, we would certainly anticipate an increase in the use of this refunding program in economically depressed areas such as Houston. If the VA can truly benefit to this extent from programs of this nature, then it would appear to us that the benefit resulting from keeping veterans in their homes in economically depressed areas would even result in substantially greater savings to the VA and the veteran.

(*) GAO Testimony dated May 13, 1987, page 11, paragraph 2.
(**) GAO Testimony dated May 13, 1987, page 5, paragraph 1.

RECOMMENDATIONS

Since the enactment of the Serviceman's Readjustment Act of 1944, lenders have been encouraged to participate in the program which, in large part, was based on what seems to be an unwritten understanding, based on 40 years of previous history of the VA taking title to the property, that only under extraordinary circumstances would the VA resort to payment of guaranty only. We in Houston, in the midst of an economic crisis, have seen no bids increase to a level of approximately 37% for the calendar year to date. When consideration is given to the fact that the vast majority of VA loans are in mortgage-backed securities guaranteed by the Government National Mortgage Association (GNMA), the no bid creates financial problems for medium to small sized mortgage banking firms which, in reality, could put them out of business in a relatively short period of time. In this case, in order for a VA lender/servicer to meet its obligations, it must first borrow money to buy the foreclosed mortgage out of the mortgage-backed security, then financing must be arranged to cover the ownership of the real estate and to pay for such maintenance and carrying costs as may be required. In these cases, lenders/servicers may be forced to take enormous losses when they find that their bank lines, for purposes of ownership of real estate, become restricted and can no longer absorb ownership of real estate which occurs through the no bid policies of the VA. We would therefore recommend that in economically depressed areas, such as Houston, consideration be given for granting a moratorium on no bids for a period of two years.

In addition, we would recommend that the level of loan guaranty remain at 60% or $40,000, whichever is the least. Lenders/servicers have found themselves faced with conditions which are beyond their control as a result of economic conditions which exist in the area and the current policies which are being pursued by the VA. As a result of this increase in guaranty, as recommended above, we feel that lenders/servicers would receive protection from increases in the level of no bids which are, even currently, totally unacceptable.

We again request assistance in developing a program whereby delinquent VA mortgages can be used for security in future GNMA mortgage-backed programs. It would be unconscionable to assume that lenders/servicers should bear the entire responsibility for granting of forbearance and relief to the delinquent veteran borrowers. This Subcommittee has, in proposed legislation(*), made provision by removing interest accruals of more than 90 days from the calculation of the no bid formula, where delays in foreclosure were beyond the lender's/servicer's control. However, we would recommend that, while the accruals be eliminated from the calculation of the no bid, the lender/servicer should be reimbursed, in full, for all advances which it may have been required to make on VA loans which have been pledged as security under the GNMA mortgage-backed securities program.

(*) Amendment in the Nature of a Substitute to H.R.2672, Section 4, subsection (10) (A).

Finally, we would recommend that the VA takes such necessary steps as required to ensure prompt payment of foreclosure claims. At the current time, it is requiring 4 to 5 months to receive settlement of 90% of the amount claimed after the filing of such claim. This, in effect, forces the lender/servicer to utilize either its own funds or borrowed funds to repurchase the foreclosed loans from the mortgage-backed securities, as opposed to being required to pass through principal and interest payments under the securities agreements. If such arrangements cannot be made to ensure prompt payment, then the VA should be compelled to pay interest at a level which would compensate the lender/servicer for those delays.

AUCTIONS

AUCTION DATA FY 85, FY 86, AND FY 87 YTD

Location	Date	# Offered	# Sold	Sales Price	Avg. S/P
FY 85					
Detroit	10/84	200	200	$ 1,308,700	$ 6,544
Houston	6/85	175	175	$ 4,982,000	$28,469
Peoria	7/85	170	170	$ 2,453,300	$14,431
Cedar Rapids	8/85	151	151	$ 2,768,700	$16,271
Portland, OR	9/85	101	101	$ 3,050,700	$30,205
TOTALS FY 85		797	797	$14,563,400	$18,273
FY 86					
Phoenix	1 85	126	126	$ 6,047,400	$47,995
Houston	2/86	249	249	$ 5,640,750	$22,654
Phoenix	3/86	140	140	$ 6,467,000	$46,193
Muskogee	4/86	167	167	$ 2,689,750	$16,106
Indianapolis	5/86	114	97	$ 1,799,500	$18,551
New Orleans	9/86	117	110	$ 2,917,300	$26,520
TOTALS FY 86		913	889	$25,561,700	$29,670
FY 87					
Houston	10/86	350	323	$ 7,339,000	$22,721
Muskogee	4/87	297	297	$ 4,778,700	$16,124
Cedar Rapids	4/87	76	74	$ 885,252	$11,557
Gary	5/87	112	111	$ 1,174,350	$10,579
Denver	5/87	185	173	$ 5.811.917	$33.595
San Antonio	6/87	201	194	$ 5,486,530	$28,281
Houston	6/87	360	336	$ 4,228,900	$12,586
FY 1987 Total		1,581	1,508	$29,704,649	$19,698

Source: Rice Center

Information provided by the Houston VA office.

STATEMENT OF

H. S. DeWITT
PRESIDENT
TEXAS MORTGAGE BANKERS ASSOCIATION

Before the

COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

HEARING IN HOUSTON, TEXAS ON
THE OPERATION OF THE VETERANS
ADMINISTRATION HOME LOAN
GUARANTY PROGRAM IN THE
STATE OF TEXAS

July 31, 1987

POSITION OF THE TEXAS MORTGAGE BANKERS ASSOCIATION ON THE VETERANS ADMINISTRATION NO-BID POLICY

The Texas Mortgage Bankers Association (TMBA) is a trade association comprised of more than 200 member companies engaged in the various facets of real estate finance in Texas. While not all member companies participate in the Veterans Administration (VA) Home Loan Guaranty Program, what happens on VA loans in Texas inevitably affects all real estate mortgage lending in this state.

As will be discussed later, the VA no-bid problem and the related "dumping" of its housing inventory by the VA has resulted in a forced deterioration of all residential housing values. That in turn affects FHA and conventional home mortgage loans. Eventually, the deterioration of residential values impacts commercial values and commercial loans. So the problem discussed in this paper either directly or indirectly affects all aspects of mortgage lending in Texas.

To put the problem -- and the TMBA recommendations -- in proper perspective, it is necessary to recite briefly some of the background of the VA Home Loan Guaranty Program. The program was established by The Serviceman's Readjustment Act of 1944 to assist returning veterans in obtaining housing as compensation for the lost opportunity experienced during their period of military service. The VA is authorized to aid the veteran in obtaining a home by requiring no down payment, providing low interest rates, and guaranteeing the home loan. From the very inception of this program, Congress has made it clear that the program is designed (as an entitlement program) for the benefit of the veteran. Even if there is a taxpayer cost to this program, that cost has been earned by the veteran because of his/her military service.

The current amount of guaranty is limited to the lesser of $27,500 or 60.0% of the loan amount. The historical statistics attest to the success of this program as this country's effort to repay the veteran for his/her service.

More than 12 million loans in a total mortgage amount of in excess of $275 billion have been guaranteed under this program.

More than 4 million loans are still outstanding at the present time.

To understand the present VA policy, it is instructive to look at how delinquent or defaulted loans were handled prior to 1984. That year was an important turning point because of the adoption of the Deficit Reduction Act of 1984.

When a VA loan becomes delinquent and it becomes apparent that the veteran (after appropriate forebearance and counseling) will be unable to pay the loan, the VA has the following two choices: (1) pay the lender the guaranteed amount (presently the $27,500 or 60% of the original principal balance) and leave the property with the lender; or (2) pay the lender for the full amount of the outstanding debt (including the entire unpaid principal balance plus interest, advances and foreclosure expenses), in which case the lender would convey the property to the VA.

What has come to be known as a "no-bid" results when the total outstanding debt at the time of foreclosure exceeds the appraised value of the property by more than the guaranty amount bid. In such cases, the VA leaves the property with the lender and pays that guaranty amount.

Since the inception of the VA Home Loan Guaranty Program, the VA has had the statutory authority to select the option with regard to defaults that resulted in the least loss to the government. However, at least up until 1982, the program was operated as if there were a 100% government guaranty on VA loans and only in very isolated instances did the VA refuse to take a property and elect to pay the guaranty. Historically, there seemed to be a tacit understanding that in order to perpetuate a successful primary and secondary mortgage in VA guaranteed loans, a 100% guaranty was essential. That approach was similar to the 100% insurance on FHA loans.

Who benefited from this policy? The veteran -- the one the program was designed to benefit from the outset. The VA policy encouraged literally thousands of lenders to participate in the program. In reliance on the VA's practice and policy, lenders all over this country made VA loans readily available to our veterans. Clearly, the VA Home Loan Guaranty Program was achieving the results contemplated by Congress: it provided home ownership for our veterans that might not otherwise have been available.

Then there was a very radical change that took place in 1983 and 1984. The VA policy changed. The rules of the game that both lenders and veterans had come to rely on were changed.

First of all, the Grace Commission recommended that the VA adopt a new policy to pay the guaranty on all VA foreclosures rather than acquiring the foreclosed properties. Congress disagreed. However, the dialogue between the Grace Commission and the Congress resulted in a change -- a recision -- of the long-standing VA policy. What effectively had been a 100% guaranty program was eliminated in 1984.

The Deficit Reduction Act of 1984 included a provision codifying a specific formula the VA must use to determine whether to acquire a foreclosed property or to pay the guaranty and leave the lender with the property. The Act required the VA to include within the formula the administrative cost of managing and disposing of the acquired property.

Prior to 1984, the VA took into account very little, if anything, for administrative costs. Today it uses a figure of 10.5% of the appraised value of the property.

The result is this: The VA deducts 10.5% of the appraised value of the property at the time of foreclosure as the amount it considers it would have to pay as administrative costs to maintain and resell the property if it acquires the property. If the total outstanding debt at the time of foreclosure exceeds the appraised value (less the 10.5% administrative costs) by more than the guaranty, the VA merely pays the guaranty and leaves the property with the lender. That is the no-bid situation.

What has been the impact or the effect of the Deficit Reduction Act of 1984? First of all, the General Accounting Office reports that the Act has resulted in an increase in the debt of veterans who default on their loans. Because the Act required post-acquisition costs to be included in the VA's acquisition decision, the net value of the veteran's property has decreased, resulting in an average increase of $2,700 in the veteran's debt. That factor and the overall changed policy beginning in 1984 has dramatically increased the number of properties left with the lenders -- the number of no-bids.

That conclusion can be factually demonstrated and quantified. In 1982 there were only 238 no-bids nationally out of 15,427 loans foreclosed. That is a 1.54% rate of no-bids.

In 1985 -- the first year after the new policy was implemented -- there were 3,055 no-bids out of 27,276 loans foreclosed nationally. That was an 11.20% rate.

The change has accelerated even more in 1987. While nationwide, the VA reported approximately a 20% no-bid activity, there were almost 25% no-bids in Texas. Houston led the way with a 30% no-bid experience.

Clearly it was the stark change of policy by the VA beginning in 1984 that increased the number and percentage of no-bids nationally. It is also apparent that both the number of foreclosures and the percentage of no-bids are concentrated in the geographic regions that have been experiencing economic downturns. The State of Texas and the City of Houston are the most prominent examples.

There is a related and corollary problem caused by VA action which exacerbates the no-bid situation. That is the "dumping" or selling of foreclosed properties by the VA at lower than market values. Here is what has been happening in Houston.

Because of the depressed housing market, the number of homes acquired by the VA through foreclosure has been increasing rapidly. Some of the publications of the VA indicate that they continue to acquire properties faster than they are able to dispose of them. That is attributable in part to insufficient staffing and resources in the Houston VA office.

In any event, the Houston VA office has undertaken a systematic program of property disposition without regard and consideration for nearby property values. Among the tactics utilized are public auctions. To induce attendance and participation in the auctions, the auctioneers for the VA have even given away homes free at the auctions.

These sales procedures followed by the VA result in disposition of the properties; but that disposition has been at below appraised or market rates. The GAO reported that "In one of the auctions, the average property was sold for 44 percent of VA's initial sales price."

While this method of disposing of inventories may have achieved VA's goal of reducing the number of properties in its total inventory, the impact on property values has been devastating. When a $100,000 property is dumped on the market by the VA for $44,000, it has an immediate effect on other property values in the neighborhood. For example, when the next door neighbor realizes that his $100,000 home is now worth only $44,000 as a result of the VA's dumping procedure he understandably wonders why it makes any sense for him to continue to make payments on his loan.

The end result is that many homeowners -- veterans and non-veterans -- are discouraged from continuing their house payments. They are abandoning their homes. That in turn results in more foreclosures.

The problem is circular. The economic problems have led to an unfortunate increase in foreclosures. Then the "quick sale" or dumping of properties by the VA at below market values has driven down the values of other properties. That dumping then results in more foreclosures.

Who has been hurt by the VA's no-bid and dumping policies? Of course, lenders have been hurt. A survey by the Mortgage Bankers Association showed that the average loss on properties left with lenders as a result of no-bids was about $16,500 during fiscal year 1986. While some large companies may be able to sustain hundreds of losses of that magnitude, smaller and medium-sized companies cannot. If the trend continues, it is just a matter of when -- not if -- many VA lenders will go out of business.

But what about the veteran -- the one that the VA loan program was designed to serve? Although the total negative impact on the veteran is incalculable, some immediate answers to the question are clear.

Veterans are losing their homes at a record rate. While the original intent of the VA Home Loan Guaranty Program was to make home ownership available to our veterans, the new policies and practices of the VA are taking that home ownership away. And the veterans are losing more than their homes.

The veteran not only loses the equity he/she may have built up in the home, the foreclosure may result in a substantial deficiency which the VA is mandated to pursue and a lender must pursue. In a VA no-bid situation, the veteran is faced with a maximum deficiency owed to the VA of $27,500. That amount very well may be in excess of the actual loss which would be sustained had there been an orderly sale of the real estate.

There is still a further problem visited upon the veteran by the policy change. The Deficit Reduction Act of 1984 also requires a reporting to the Internal Revenue Service of the difference between the debt and the sales price at foreclosure.

The result is that the veteran who has just lost his/her home is still confronted with (1) a continuing debt for the deficiency or (2) income tax owed to the federal government on constructive income if he/she has no responsibility for the deficiency. Either way the veteran loses if that difference is forgiven.

That is not the end of the veteran's problem. The foreclosure affects the veteran's credit rating and, therefore, his/her ability to borrow in the future for home ownership as well as other purposes. Non-home owning veterans are also affected. The change of policy and procedure by the VA has driven many VA lenders and potential VA lenders out of the market. There are a lesser number of sources for VA loans now available to other veterans.

Even those lenders who have remained in the VA loan market have been required by the change of policy to change their own practices or standards for making VA loans. Many lenders have substantially tightened their underwriting requirements for VA loans. These changes take the form of ratios higher than VA's requirement, increased liquid asset requirements by veteran applicants, and more stringent job stability standards. Some national lenders now require down payments of up to 10% on VA loans in certain geographic areas.'

This probably is not a recitation of all of the harm caused to the veteran by the VA's changed policy. These are just some of the more immediate and obvious results.

It is relevant to ask: Is this really the way we want to repay our veteran for his/her service to this country? We say one thing and do another. We say that the intent and purpose of the VA Home Loan Guaranty Program is to provide home ownership for our veterans. The operation of that program today is obscuring its past successes and is resulting in putting veterans out of their homes with a still existing debt burden or requiring them to pay taxes on money never received, and ruining their credit rating. Moreover, the policy is eliminating or restricting potential home ownership for other veterans.

Others are impacted by the changed policy as well: Cities (with reduced tax base as a result of reduced values) and builders (with reduced markets) are others that come to mind. Also, the integrity of GNMA security is being threatened by the massive number of no-bids; a question has been raised as to whether some of the smaller and medium mortgage companies are financially able to repurchase the loans out of the pool.

So the problem is global in the sense that it affects many individuals and many industries. The impact on the veteran is the most significant and the most critical.

What can be done? What should be done?

The TMBA cites and adopts by reference the statement made by MBA President Thomas M. French, Jr., to the Committee on Veterans'

Affairs Subcommittee on Housing and Memorial Affairs on June 23, 1987. That statement spells out the position of MBA on what should be done about this problem. The TMBA would add some modifications, explanations, and comments to that position.

First of all, the Congress is confronted with the fact that the current VA claim payment formula originally authorized by the Deficit Reduction Act of 1984 expires on September 30, 1987. A completely new no-bid formula should be adopted by September 30 rather than the present one being extended. The formula should return the VA to its historical, traditional policy: a target rate of 1% of no-bids.

The approaches articulated by MBA President French would go a long way toward returning to that traditional goal and policy. The limitation of the amount of accrued interest included in the formula calculation to 90 days is particularly appropriate in light of the VA delays in processing, the VA's requirement of forebearance, and the increasing number of bankruptcies with the downturn of the economy in Texas and Houston.

The administrative cost factor in the formula should also be changed. Certainly, valid arguments can be made for the position that no administrative cost factor should be included in the formula. That would return the VA to the long-standing policy and practice that was pursued for 40 years from 1944 to 1984.

If, however, an administrative fee or cost factor is to be built into the formula, the veteran certainly deserves to have a smaller percentage utilized. A 5.0% to 7.5% administrative cost factor would reduce the deficiency the veteran would be responsible for and is substantially more appropriate than the present artificially high 10.5% figure.

MBA also proposes that in the case of a no-bid where the value of property has declined more than 15%, the lender should have the option of either (1) being paid the amount of the guaranty and taking title to the property, or (2) conveying the property to the VA and forfeiting 5% of the amount of the outstanding debt at the time of liquidation. While the TMBA concurs with this logical and fair approach, the second alternative should require a forfeiture of 5% of the deficiency rather than 5% of the debt. The focus clearly is on the deficiency and the responsibility should be based on a percentage of that amount.

Otherwise, the TMBA adopts and endorses the position of MBA spelled out in President French's statement. We would add some additional proposals. The VA auctions of foreclosed properties should stop. The "dumping" of properties on the market with the resultant dimunition in the value of other properties should cease. The pressure being applied by the VA on its appraisers to drive down the appraisals being used for foreclosure purposes must end. The VA should return to an orderly liquidation of its property inventory even if that takes more time and results in a retention of the inventory for a longer period.

A process should also be established by which the VA can expedite claim paying procedures. Congressional appropriation for adequate personnel resources in high volume VA offices is critical to that process. Millions of dollars are being lost by lenders/servicers due to delays in VA's timely payment of claim funds not only for VA no-bids, but for all VA foreclosures. The establishment of a penalty interest procedure to prompt timely payment of conveyance and claim funds by the VA is appropriate also.

A procedure should also be established for delegated "foreclosure processing" for the lender to be paid foreclosure claim funds immediately upon foreclosure from an invoice supported by an indemnity followed by conveyance and claim documentation. In order to expedite conveyance and reduce costs both, there should be established a new conveyance routine to eliminate the necessity of a new title policy through the use of the original Mortgagee's Title Policy. The TMBA is available to help on the drafting of the delegated foreclosure processing procedure and the procedure for conveyance without a new title policy.

Finally, the validity date of liquidation appraisals should be extended to at least six months instead of the now 60 days for Houston and 45 days for Waco VA offices. Lenders now are required to order appraisals 60 days prior to the foreclosure sale date. If the sale is not possible, a new appraisal must be requested. Delaying foreclosure (which inevitably results) increases the debt and possibly causes the formula calculation to prompt a no-bid.

CONCLUSION

The no-bid and dumping problems have created a crisis in Texas -- especially in the Houston area. The status quo cannot continue. The veteran and those who are trying to help the veteran are entitled to something more. Keep in mind that both the lenders and the veteran borrowers got into this problem in large part in reliance on the 40-year custom and practice and policy of the VA.

The TMBA urges the changes spelled out in this submission and the paper previously filed by MBA President Thomas M. French, Jr. We stand ready to work with the Congress in every way possible to get this problem corrected.

STATEMENT OF THE

HOUSTON

ADVISORY COUNCIL
TO
V.A.PROPERTY DISPOSITION

TO: HOUSE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

FOR: A FIELD HEARING ON THE OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM IN THE STATE OF TEXAS

BY: LORAINE ALLISON, CHAIR, HOUSTON ADVISORY COUNCIL TO VETERANS ADMINISTRATION PROPERTY DISPOSITION

ON: HOUSTON VA REGIONAL OFFICE LOAN GUARANTY PROGRAM

LOCATION: HOUSTON, TEXAS

DATE: JULY 31, 1987

STATEMENT OF THE

HOUSTON ADVISORY COUNCIL TO VETERANS ADMINISTATION

PROPERTY DISPOSITION

BEFORE THE

HOUSE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

AT

A FIELD HEARING ON THE OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM

IN THE STATE OF TEXAS

BY

LORAINE ALLISON, CHAIR

HOUSTON ADVISORY COUNCIL TO VETERANS ADMINISTRATION

PROPERTY DISPOSITION

JULY 31, 1987

IN

HOUSTON, TEXAS

INTRODUCTION

Madam Chairwoman, Distinguished Congressmen and guests:

On behalf of the Houston Advisory Council to VA Property Disposition, I want to welcome you to Houston. It is gratifying to our eight delegates that a Congressional Subcommittee has seen the urgency of the foreclosure crisis in Texas and specifically in the Houston VA Regional Office, and has responded by making the effort to come to Houston for a closer look. We appreciate this second opportunity to present our views on the problems of the Houston Loan Guaranty Office.

UPDATE ON THE PROBLEM OF STAFFING SHORTAGES

When we last spoke to this Subcommittee, at a hearing on April 22nd of this year on Capitol Hill, we talked about the steady stream of foreclosures coming into the Houston VA Regional Office at an average rate of 356 properties per month. To bring that figure current through April, May, and June of this year, a new monthly average of 360 properties per month shows that there has actually been an increased influx of properties in the past three months.

The bar graph on page 7 of this Council's statement demonstrates that in recent months the total number of vacant properties in Houston owned by the Veterans Administration has continued to remain close to 5,000. To be exact, Houston VA Regional Office either owns or is acquiring title to a total of 7,826 homes. The problem has not yet begun to abate.

Our Advisory Council's major objective has been to study VA's existing sales program of these properties and make recommendations to improve sales. To this end, we have dedicated much time over the past year and recently on July 2, our primary objective was met when the new Public Bid Opening System was set into motion.

The changes to the Loan Guaranty Program have not come easily for there have been many barriers on the local and national levels to our recommdations, but, nevertheless, changes have been made toward a more open, fair and streamlined system of selling properties.

Our Council asked for your support in April in obtaining 27 additional staff members, computer equipment, and overtime and contract monies. With the Supplemental Appropriations Bill, which we understand has recently been passed, we have been informed by the Regional Office that there is money available to hire the staff needed.

They have not begun to hire due to concern over availability of funds in the 1988 Fiscal Budget to retain any new employees they may hire. We urge you, Congressmen, to support allocation of funds for the next few years to the Houston VA Regional Office adequate to provide for the 27 additional personnel requested.

The early results of the new Public Bid Openings indicate sales of about 100 properties per week and Council believes that will increase rapidly as the sales force and buying public realize they may now depend on standard procedures administered even-handedly. The seven loan processors currently employed cannot handle the 600 to 800 cases per month we anticipate. As a matter of fact, at this moment there are 873 loans in process, a backlog which loan processors cannot overcome without help.

There are four other areas concerning legislative initiatives on which our Advisory Council would like to comment.

(1) Forebearance

(2) "No bids" system

(3) Decrease of vendee loans/increase of cash sales

(4) Elimination of the fixed interest rate

FOREBEARANCE

VA Policy and Practice pertaining to forebearance and refinancing: Council favors this and recommends wide-spread dissemination of the availability of this procedure to veterans. In distressed economic areas such as Houston, we encourage further extension of forebearance. Refinancing at lower interest rates at no cost to the veteran should also be used to help veterans hang on to their properties wherever possible. The refinance program and forebearance procedures should be extended to VA vendee loans. Lender cooperation is required for any program of forebearance to be successful. We encourage VA to devise a motivating factor to reward lenders who choose to agressively participate in forebearance and low-cost refinance efforts.

"NO BIDS" SYSTEM

Council is opposed to removal of the expiration date for the "no bids" formula contained in Section 2512 of the DRA of 1984. Council dislikes the "no bids" concept and recommends it be allowed to expire for these reasons:

(A) VA has, in the past, made a profit on the sale of foreclosures in a rising market and will be giving up an opportunity for this source of funds.

(B) The "no bid" system threatens to eliminate the veterans' housing benefits completely. VA's "no-bid" system saddles the lender with the risk of loss above the guaranteed amount if that lender cannot sell the property for enough to cover the difference between the loan balance at the time of foreclosure and the guaranteed amount. Lenders are already finding it more and more difficult to sell VA guaranteed paper to the secondary market. Council believes "no-bids" will take away the veterans' source of home loans in a short period of time because investors on the secondary lending market will find themselves in possession of properties thousands of miles away from their headquarters and will face unwanted complications in disposing of these properties.

(C) This is another lessening of benefits to our veterans. Prior to "no bids" system the VA loss was the actual (real) difference in the proceeds of the sale of the foreclosed property and the guaranteed amount. With "no bids" VA takes an automatic loss of the full guaranteed amount so the veteran is automatically saddled with a deficiency judgment for the full guaranteed amount, even if the lender sells the house for a profit. The government will then garnishee his wages to obtain the judgment amount. In addition, the unfortunate veteran is then forgiven the amount of additional loss the lender takes and thus must pay taxes on this amount as though it were a profit. And all of this happens to a veteran who in most cases was caught in an economic downturn in his area of the country, such as is occurring in Houston, Texas at this time, and had to lose his home to foreclosure due to no fault of his own. Council abhors such severe punishment of our veterans, who served our country and who deserve true "benefits" as a meager reimbursement for their military service.

DECREASE OF VENDEE LOANS/INCREASE OF CASH SALES

To increase the number of VA-acquired foreclosed properties which must be sold on a cash rather than vendee loan basis:

The Advisory Council is strongly opposed to increasing the number of cash sales required and thus reducing the number of vendee loans.

(A) VA loses money because properties for cash always bring much lower prices than properties offered with financing. This will deplete the Revolving Fund dramatically.

(B) Without attractive financing through vendee loans, VA loses a very important advantage which they now have over competing resale programs and will be left falling short of the competition in areas such as property condition. VA will then either have to get heavily involved in rehabilitating its foreclosures or reduce prices and take a further loss.

ELIMINATION OF THE FIXED INTEREST RATE

Elimination of the fixed interest rate on VA-guaranteed loans: Council is opposed to elimination of the fixed interest rate:

(A) Council's first thought is "why fix something which isn't broken?" We believe the VA fixed interest rate is working beautifully and benefits the veteran, as is the intention of the Veterans Guaranty Loan Program.

(B) It is a false assumption to think that the veteran suffers because the seller must pay the discount points (not the veteran) and often passes this cost on to the veteran in terms of higher purchase price on the property. What the veteran has gotten is a lower interest rate than he otherwise would have bought if he had paid the discount points himself. So if he agrees to a slightly higher purchase price his payments are still no higher than they would have been. The current VA fixed rate system works and the discount points allow the market to work in a natural, unrestricted manner. If the veteran is forced to shop the mortgage market without a fixed rate, that veteran will be faced with the same problems with lenders that non-veterans currently face, where loan commitments are made to run out when a lender finds it advantageous. Veterans deserve the benefit of a fixed interest rate which is not threatening to expire. This is another benefit which should not be taken away.

(C) The VA fixed rate is a vital stabilizing force on fluctuating rates. Without it, interest rates in general will increase dramatically and will swing more violently up and down, creating instability in the entire economy. The veteran will be a victim of this roller coaster ride as well as all other home buyers in America. Lenders have always known that they had a more secure loan when it was VA guaranteed than with private mortgage insurers, and were willing to accept a smaller yield in return for less risk. Now Amendment S.920 would in effect let the lender have the most secure loan available and high profits from the loan, also. This does not seem shrewd negotiating on the part of the Veterans Administration. Council strongly opposes elimination of the fixed interest rate for VA guaranteed loans.

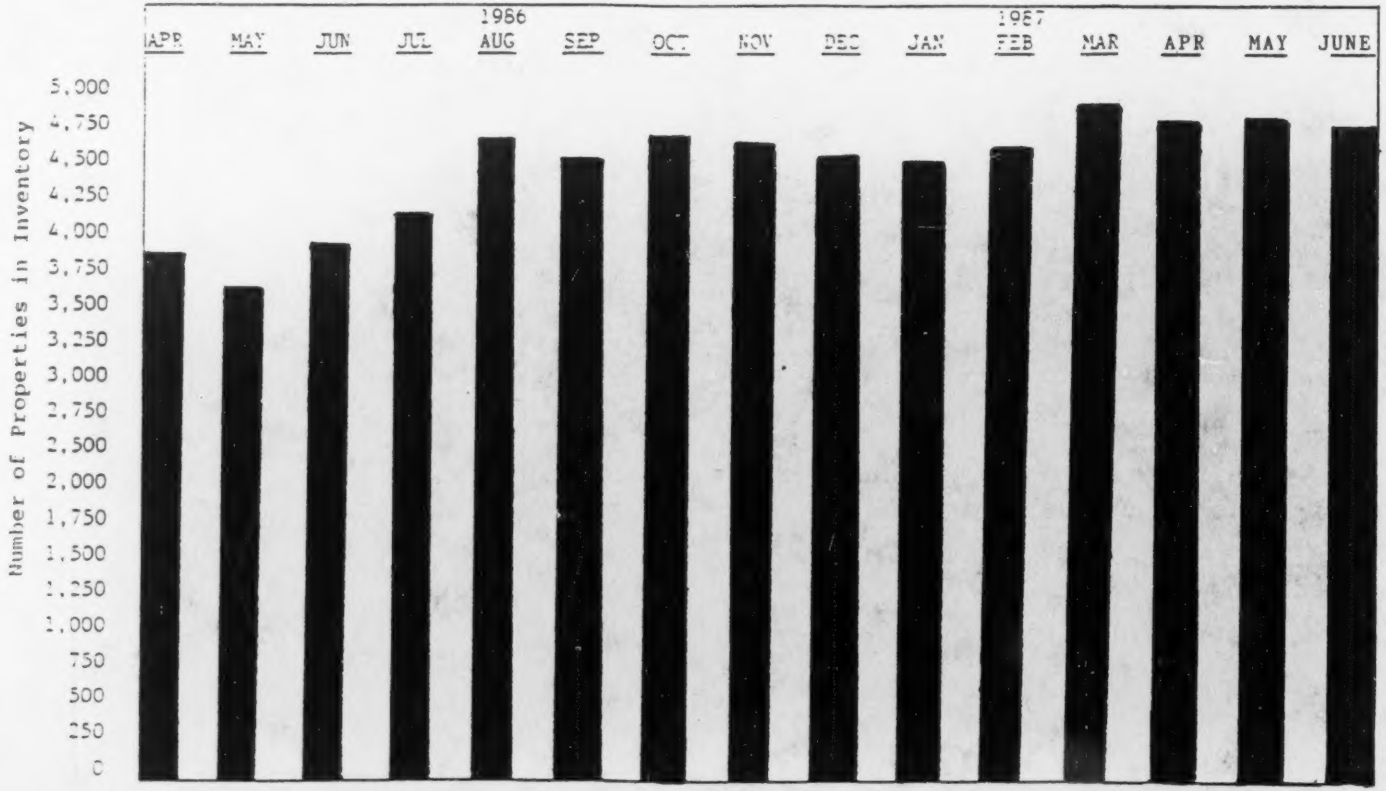
(D) In reality, when the level of discount points being charged by lenders for a certain interest rate reaches about 5 pts., VA adjusts the rate, so this never gets too far out of hand anyway.

Thank you for the opportunity of our presenting our views.

The Advisory Council to VA Property Disposition
Loraine Allison, Chairwoman
Phone: (713) 266-1443

HOUSTON VA REGION:

TOTAL NUMBER OF PROPERTIES IN INVENTORY



STATEMENT OF THE
HOUSTON BOARD OF REALTORS
BEFORE THE
HOUSE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
BY
W. ALLAN HANCOCK, V. P.
HOUSTON BOARD OF REALTORS
JULY 31, 1987

INTRODUCTION

Madam Chairwoman, Distinguished Congressional leaders, and guests:

My name is Allan Hancock. I am co-owner/broker of ERA Hancock, Nichols & Associates, and a Vice President of the Houston Board of Realtors and I am speaking today in the latter capacity.

OVERVIEW OF HOUSTON'S SINGLE-FAMILY DWELLING SALES MARKET

Contrary to popular perception, Houston began a healthy recovery in its housing market in September of 1986 and has shown steady increases every month since as reflected by Houston Board of Realtor statistics (see Exhibit A). Latest information from HBOR Multiple Listing Service shows June 1987 as an all-time record month, with 3044 total closed sales. This is contrary to the national trend which saw June sales dip 6% from May sales. Houston increased 11%.

The negative side is that foreclosures continue at record high levels and this trend is expected to continue throughout 1987. Houston has an incredibly brisk market and there is no reason why the Houston Regional Veterans Administration Property Disposition should not be participating in this strong upswing.

MARKETABILITY OF VA HOMES IN HOUSTON

Because of the number of properties on the market in the greater Houston area, sellers in general, and particularly VA, need to be competitive. Up until recently, the VA Regional Office's method of marketing its homes left much to be desired which is why VA Washington approached the Houston Board of Realtors and the Houston HUD Brokers Association to form the Houston VA Advisory Council. This Council has worked hard to help implement the many changes that have and will improve the saleability of the Veterans Administration's large inventory of homes.

RELUCTANCE OF BROKERS TO PARTICIPATE IN VA SALES

The Houston VA Regional Office has some 4000 brokers registered to participate in the sale of its homes. However, many are reluctant to show VA homes because in the past 1) the status of properties was often inaccurate 2) the homes were sometimes in deplorable condition 3) communication with the VA office was (and still is) a frustrating and time-consuming ordeal 4) homes were often priced above comparable properties for sale. These problems are being addressed by the VA staff and the VA Houston Advisory Council. Therefore, cooperating brokers may look forward to experiencing some positive changes in the near future.

REMEDIES THAT ARE NOW IN PLACE

Remedies already in place include a) weekly bid openings with instant results whereby purchasers know immediately whether or not they have in fact bought a home b) seminars for Realtors^{R} to improve communication between the VA and the real estate community c) more accurate lists of properties d) the appointment of closing attorneys to relieve the brokers of a task which could have led to serious complications.

SUGGESTIONS

Veterans are continuing to lose their homes in Houston at distressingly high levels. In many cases, the loss is far beyond the veteran's control. He may have lost his job or taken one at much lower pay levels, he may be unable to sell due to a mortgage balance much higher than his home's depressed market value, or he may still have a high interest rate created in the high-inflation years in the early 80's. It seems obvious that VA could help the veterans and cut losses due to foreclosure by instituting several programs. Refinancing at current rates with low or no cost, forebearance agreements, maturity extensions, and loan balance adjustments should all be considered. With the Houston Region suffering losses of over $20,000 per foreclosed house, there is also a financial incentive to work out the problems between the mortgagee, the VA, and the veteran.

Also, the Houston VA Regional Office still needs more staff members and equipment for overworked offices if they are to be able to keep up with the demand of the market.

ADVANTAGES OF VA

We know that it is possible for a government agency to sell houses competitively in the Houston market. HUD's sales record is a good example of cooperation between a government agency and the real estate community. VA has an advantage over HUD in that VA can offer the vendee loan, in which the VA purchaser's interest rate is locked in at the time he submits his offer. Additionally, VA is the only seller offering an expedited sale in which a purchase can be closed with minimal documentation in a short period of time. If Houston's market and the VA continue to show improvement, VA should reduce its inventory dramatically.

CONCLUSION

The Houston Board of Realtors with its almost 9000 members is responding to one of the most difficult situations in housing history and is enjoying excellent results. We are willing and ready, through the Houston VA Advisory Council, to bring any resources to bear in helping the Houston VA Regional Office improve its performance and we are also supportive of special help for veterans attempting to keep their homes.

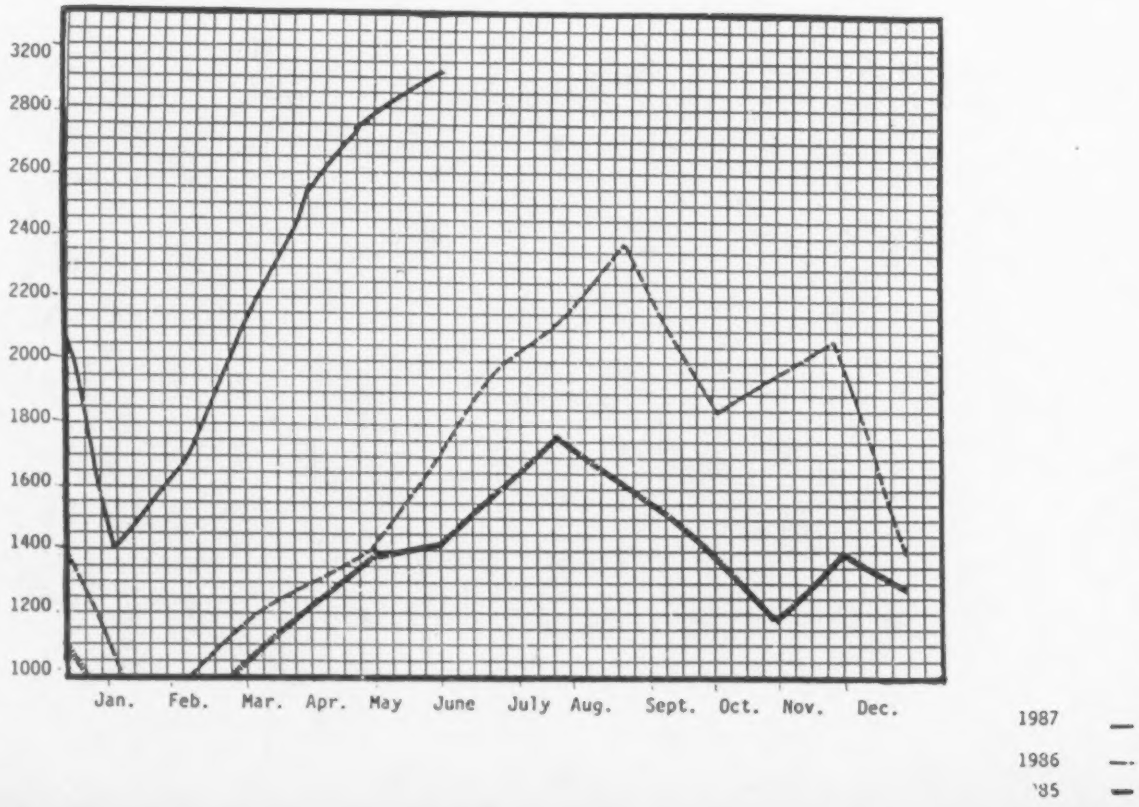
Thank you for the opportunity to address this issue.

W. Allan Hancock, V. P.
Houston Board of Realtors

Exhibit A

COMPARISON OF SALES CLOSED BY MONTH

1985 - 1986 - 1987



TESTIMONY
OF DALTON SMITH
PRESIDENT, GREATER HOUSTON BUILDERS ASSOCIATION

BEFORE THE HOUSE VETERANS AFFAIRS SUBCOMMITTEE
AT HOUSTON, TEXAS

JULY 31, 1987

Good afternoon Madam Chairwoman Kaptur and members of the Subcommittee on Housing and Memorial Affairs. My name is Dalton Smith. I am here today on behalf of the Greater Houston Builders Association of which I am President and on my own as a builder in Houston and other areas of the country.

I would like to thank the Committee for the opportunity to present this testimony. It is the position of the Greater Houston Builders Association that the Veterans Administration procedure, dealing with foreclosures and resales is causing serious problems in the Houston real estate market. The practices of the VA are contributing to the deterioration of housing values, because they are geared toward the perpetuation of declining values and thus encouraging additional foreclosures.

Our concerns deal with three principal areas of the VA foreclosure process. First is the VA "no-bid" method of acquiring or not acquiring foreclosed properties from mortgage companies. The second is the VA practice of not improving or repairing foreclosed properties before sale. The third concern deals with the VA method of disposing of foreclosed properties acquired from mortgage companies. Of particular concern is the VA reliance on auctions.

The VA procedure described as the "no-bid" process returns properties to mortgage companies. It becomes the mortgage company's responsibility to dispose of the property. The VA formula used in determining whether they will no-bid concludes that the lender will ultimately lose money in the final sale of the acquired property. This is obviously due to the decline in housing values in the Houston area. In order for the entity that ultimately acquires the property to recover their investment it will be necessary to hold the property for a period of several years, until property values recover. Most lenders are unable to hold property for extended periods, either because of fiscal constraints or regulatory requirements. Renting the property is not an option readily available to most mortgage companies or lenders. Renting is an option to VA, which should be considered.

The result of "no-bid" is that the lender must dispose of the property at the best price available. Since most lenders have difficulty in marketing residential properties they will normally accept the first offer they receive. This tends to be a low offer. Closing the sale at the low offer results in a comparable sale at a reduced price. The comparable then becomes a measure for future sales and a barometer for the value of properties remaining in the subdivision. The effect of this reduction in neighborhood values is that those people who are current with their mortgages can not rationalize continued payments on property that is worth less than the loan balance. This is aggravated when the basis for their determination is a property value which is a affirmed by the Veterans Administration through the no-bid resale process. Buyers are thus encouraged to allow their properties to be foreclosed rather than continue making payments in light of the seemingly endless decline in value which results from foreclosure.

A major concern of the home building community is the recent reluctance of lenders to provide VA financing on new home sales. This is obviously difficult to document, but with more rigid underwriting standards and more conservative appraisals lenders are advising buyers and builders that VA financing will be considerably more difficult to obtain. They point directly to the no-bid procedure as the reason. As long as VA maintains the rigid no-bid procedure, the lending community will continue to be reluctant to provide this same type of financing. The committee is urged to very strongly consider the no-bid problem in light of the fact, that the benefit to the veteran is being lost because the Veterans Administration policy and procedure discourages lenders from providing the financing.

The second principal consideration is the practice VA has of not making property repairs. When VA acquires the property they provide basic clean-up and lawn maintenance, but they do not improve the property or restore it to good, marketable condition. VA is actually considered one of the biggest offenders in violating homeowner association restrictions dealing with property maintenance. The poor condition of the property has two effects. First, property placed on the market for sale in unimproved or unrepaired condition guarantees a low offer from most prospective purchasers Property which appears to be in poor condition normally carries with it the stigma of a distressed sale. Distressed sales are normally considered bargains or opportunities by individuals or investors and their offers will characteristically be very low, when compared to current appraised values or subdivision values. Communications with local lenders indicate that they are recovering dollar for dollar on money spent for repairs. Most lenders feel that reasonable repairs are appropriate in order to provide a good, marketable property and to generate a good quality purchase offer. VA is strongly encouraged to reconsider its decision not to improve properties. The investment of dollars in repairs should be recovered in additional sales prices with the obvious secondary effect being an increase in resale values and overall improvements in subdivision appearance, which will help to retain values at their current levels. It will ultimately contribute to recovering in values over the long term.

The third principal consideration of the Builders Association is the method used by VA for disposing properties. VA is placing a great deal of reliance on the auction method of property disposition. In today's market place the predominant auction buyer is an investor. The investors have become extremely sophisticated and are very much aware of the sales prices of property sold in the open market and through the auction procedures. Recent experiences of lenders clearly indicate that the investors are dominating the auction market and are generating bid offers that generally do not exceed 60% of reasonable fair market appraised value. Investors are able to justify these numbers in part, because of the poor condition of the properties being offered for sale by VA. They also are unable to justify paying more than that amount, because it results in negative cash flows on the investments or an unacceptable low return on their investment. A by-product of the VA auction process is low comparable. Investors are bringing their closing statements reflecting what they paid VA for property at an auction to their meetings with lenders who have properties for sale. They use them as documented proof that values in the subdivisions are not where the lenders say they are. Even though the lender may have an independent appraisal done on his property the result is lenders selling foreclosed properties at artificially low prices based on the comparables which are VA auction sales. We see this again as being part of a self perpetuating problem. As long as VA continues to acquire properties and dispose of them at unrealistically low prices in unrepaired condition the decline of value in Houston will continue.

In conclusion let me summarize our three points. First the Veterans Administration through the no-bid process is discouraging lenders from providing VA financing for new sales. VA's requirement to dispose of the properties quickly after acquisition is encouraging decline in values. VA should fund repairs to properties in order to place them in good, marketable condition before sale. VA should stop using the auction method for property disposition because it is perpetuating low values through predominantly investor purchases.

Finally, the veteran who has been guaranteed the entitlement of financing for affordable housing is being denied this earned right. This committee's action on these problems will surely benefit existing veterans who presently own homes in the Houston market and future home buying veterans. Thank you.

STATEMENT OF

MARTIN PERLMAN
VICE PRESIDENT/SECRETARY
OF THE
NATIONAL ASSOCIATION OF HOME BUILDERS
AND A
BUILDER FROM HOUSTON, TEXAS

before the

COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

July 31, 1987

Houston, Texas

Madam Chairwoman and members of the Subcommittee, my name is Martin Perlman and I am Vice President/Secretary of the 147,000-member National Association of Home Builders. I am a builder from Houston, Texas and have been active in VA home loan programs for the past twenty-one years. NAHB is a trade association of the nation's Home Building Industry with almost 20% of our builder members involved in building housing financed under the Veterans Administration (VA) housing programs. According to NAHB's "profile of the new home buyer" the VA Home Loan Guaranty Program was used by 14½% of the new single-family home buyers in 1986.

Madam Chairwoman, on behalf of NAHB, we would like to commend you on your efforts to address the problems facing the Veterans Administration (VA) guaranty home loan program and your great interest in assisting veterans becoming and retaining homeowners. On behalf of our Association, I would like to thank you for your efforts on passing the Veterans Housing Rehabilitation and Program Improvement Act of 1987 (H.R. 2672) which was passed by your subcommittee on July 14th and then passed by the full committee on July 22nd of this year.

I will be speaking to you this afternoon wearing two (2) hats. One as Vice President and Secretary of our great trade association and the second as a Houston home builder who is greatly concerned about the housing market in our Houston area.

VA HOME LOAN GUARANTY PROGRAM

First, I would like to take this opportunity to comment on the Veterans Administration Home Loan Guaranty Program in general. VA housing programs have served veterans and their families for over four (4) decades. They have given veterans the chance to achieve homeownership with all of the opportunities to come with putting down roots and establishing community ties. We commend the VA for its services to veterans as they have guaranteed over 12-million VA loans. I represented NAHB for the ceremonial closing of the 12th-million loan in Phoenix, Arizona this last March. We appreciate your efforts and all those in the House of Representatives who passed H Con Res. 78 which commended the VA on it's 12th-million loan. The closing of that 12th-million house was the highlight of my year as an NAHB Senior Officer. More than $275-billion in loans has been made since 1944 to help veterans obtain homeownership.

Congress spoke very clearly in 1944 when authorizing the GI home loan program as an entitlement, I repeat, entitlement program to enable veterans to obtain mortgage credit. Over time, Congress has acted wisely to increase the entitlement, expand the category of eligible veterans, and extend the period during and 5% interest caps, homebuyers should generally not suffer from "payment shock" as upward interest adjustments occur.

Moreoever, if the ARM is patterned after the FHA ARM, there would be no negative amortization, a significant protection for the consumer.

Another significant protection for the consumer is the requirement that FHA ARM legislation which mandates a written explanation of the features of the ARM. This includes a hypothetical payment schedule that displays maximum potential increases and monthly payments over the first five years of the mortgage term.

We would point out to you that the Veterans Administration is the only market participant that does not offer such a program.

ONE (1%) PERCENT FEE

Madam Chairwoman, we support H. Con Res. 78 which states that the one (1%) percent fee should not be increased. Congress passed similar legislation last year in rejecting the Administration's proposed fee increases which would have had detrimental effect on veterans obtaining home loans. As you are aware, the Administration has advocated a fee increase on veteran's home loan programs over the past three (3) years. But Congress, in its wisdom in 1984, extended the one (1%) percent funding fee for a total of three years, but this extension will expire on September 30, 1987. H.R. 7622 would extend the fee for two (2) additional years. Even with the existing one (1%) percent loan fee, the loan guaranty revolving fund will need to be supplemented with an appropriation of Congress. While we support a Congressional appropriation to maintain solvency in the program, we recognize the critical need to maintain current revenue. Thus we agree the subcommittee's retention of the one (1%) percent fee helps sustain the program. We urge Congress, however, to give serious consideration to the issue of whether the program is truly an entitlement for which user fees may be inappropriate.

DIRECT ENDORSEMENT OF THE VA APPRAISALS

We support the provision in H.R. 2672 which gives authority under the VA Home Loan Guaranty Program to the lender to determine the reasonable value of homes bought by veterans. This would make the VA automatic lender program similar to the Department of Housing and Urban Development's direct endorsement program by allowing appraisals approved by VA certified appraisers to be sent directly to the lender rather than the VA administrator. Approved lenders would then determine the market value of the home, close the loan on the basis of their own independent review and then directly notify the veteran.

Direct endorsement of appraisals would decrease processing time in approving loans and allow the VA to operate more effectively under staffing constraints. It would also bring the program in conformity with HUD's direct endorsement program which has worked successfully since its inception in 1983. Additionally, marketing conditions has delayed appraisals and has caused many veteran's contracts to expire. This had lead to increase in the cost of the loan. Most appraisals are left unchanged by the VA so there is no reason not to send them directly to the VA for certification.

LOAN CEILING EXEMPTION

For the first time in the history of the program, a ceiling was placed on the overall volume of the loans that could be made by the Veterans Administration under the sequestration provisions of the Deficit Reduction Act. In 1986, Congress had to increase the loan guarantee ceiling twice because of this legislation, causing severe disruption in the program. This came at a time when interest rates had substantially declined, allowing thousands of veterans to purchase homes for the first time. Refinancings were also at an all time high.

The Loan Guaranty Program is an entitlement program and should not be impacted by the Gramm/Rudman/Hollings deficit reduction provisions. In addition, VA home loan guarantees require no direct federal outlays unless there is an actual default on the loan. The reduction in the number of loans will not result in deficit savings.

FORTY (40%) PERCENT LOAN GUARANTEE AMOUNT

Madam Chairwoman, H.R. 2674 would substitute a forty (40%) percent loan guarantee or a guarantee of $40,000 whichever is less, for existing law.

We strongly believe that loan guarantee maximum be raised since home prices have substantially increased. Comparing the 1986 new home sales price of $111,800 to the 1980 figure of $76,600, the last time the loan guarantee was raised, new home prices have increased by forty-six (46%) percent.

We wish to compliment you Madam Chairwoman for your consideration in increasing the guarantee to 40%, but our concern is that while this guarantee amply provides for single-family loans made at the higher end of the market, the guarantee dramatically decreased the coverage for loans at the lower end of the home price market where the program is needed most.

As you know, the Senate Bill (S. 9) has an increase in the loan guarantee amount to $36,000 which is the current NAHB policy.

We look forward to working with you and the conference committee to resolve this issue.

FEDERAL CREDIT REFORM

The National Association of Home Builders strongly opposes credit reform measures which attempt to restrict federal mortgage credit activities of the Veterans Administration and other government housing programs. (S. 745 and H.R. 1754). This credit reform legislation, supported by the Administration, would change the way federal credit programs are treated in the budget and would require federal agencies to seek direct appropriations from Congress. Since the VA Home Loan Program is a guarantee program, this action is yet another attempt to restrict federal housing and credit ignores the entitlement, I repeat, the entitlement nature of the program.

PERSONAL STATEMENT

Madam Chairwoman, in your letter invitation of July 12th to appear before this subcommittee, you asked me to comment on the economic problems associated with oil and agriculture industries which have attributed to the alarming higher foreclosure rates in the Houston area. We note that properties are continuing to be foreclosed and that the VA is acquiring title to approximately 356-properties per month. These facts are undeniable. Let me speak to that issue for a few moments by changing my hat to that of a Houston homebuilder.

There have been over the past few years in the Houston community economic circumstances beyond the control of the veteran homeowners, Houston homebuilders, the Veterans Administration, and possibly even the Congress of the United States. These economic circumstances have been devastating to the community in terms of individual wealth of the community, human well-being of Houston citizens, and almost a complete disruption and destruction of the Homebuilding Industry. We have lost in one (1) year over 150,000-jobs and I don't have to paint to you or the other members of the committee the implications of that type of job loss as far as its impact on human suffering and all that that represents.

It is my personal feeling that the Veterans Administration program of auctioning foreclosed houses for sale at sometimes 50% or more below market value has contributed to the destruction of the homebuilding and home buying market place.

Let me cite to you my own personal example. As mentioned in my opening statement to the committee, I have been in the homebuilding business for some twenty-one years and have provided housing during that period of time some 5,000 to 6,000 home buyers. Most of which, although I don't have the specific numbers, have been to veterans. The housing that my company has provided over those twenty-one years has been to low and moderate income, blue collar workers. We also prided ourselves in providing good quality affordable housing and yet today, I face the possibility of shutting Perl Homes down specifically because in the subdivision that I am currently building in is competing with VA foreclosures sold at 50% or more of what my current sales price is. It is impossible to compete against the Veterans Administration selling homes for $35,000 when I am trying to sell new houses which are typically the same product for $65,000 to $75,000.

The answer to me seems to be relatively simple although I recognize that many times in the Congress of the United States simple ideas become highly complicated. But let me outline to you very briefly as a lay person a suggestion for consideration by the Veterans Administration. Why not hold the foreclosed houses in the Veterans Administration portfolio and put them on the market as rental units rather than selling them at deep discounts? This would accomplish several things.

1. It would provide housing for citizens who cannot afford to buy.
2. It would stop the Veterans Administration of destroying the market place.
3. It would save the federal government the anticipated budgetary "hit" that they most assuredly will have to take by selling these properties at such deep discounts.

I recognize that current law requires the VA to sell at least 60%, but no more than 75% of its acquired properties. I noticed in your statement during the mark-up of the housing affairs legislation on July 14th, where you made the statement that you were willing to change these percentages to a range of 50% to 65% for one (1) year only and that that was just a "quick fix" type of proposal which although it may cut back initial outlays, will cost the government more in the long run. I submit to you that what the Veterans Administration program is, as far as auctioning off foreclosed properties, is costing the government in both the short run and will certainly cost them a great deal of money in the long run. I also note in your comments that you plan to monitor the VA's practices carefully to make sure that they are maximizing the proceeds of loan sales. I cannot reconcile the current VA practices of auctioning homes to your concern in making sure that the VA maximizes the proceeds of loan sales.

Madam Chairwoman and members of the committee, Houston and the Houston area is in trouble, but given enough time, these troubles will work themselves out. From my personal prospective, I would submit that it is encumbent upon the Veterans Administration to give the community enough time to work out its problems without destroying the market place. A simple idea...yes, but one that I deeply feel merits consideration.

There is a related problem caused by VA action of "dumping" or selling foreclosed properties at lower than market values. Here is what has been happening in Houston.

The Houston VA office has undertaken a systematic program of property disposition without regard and consideration for nearby property values. Among the tactics utilized are public auctions. To induce people to attend and participate in the auction, the auctioneer for the VA has even given away homes free at the auctions or pick-up trucks.

The sales procedures resulted in disposition at below appraised or market rates. The GAO reported that "In one of the auctions, the average property was sold for 44 percent of VA's initial sales price."

While this method of disposing of inventories may have achieved VA's goal of reducing the number of properties in its total inventory, the impact on property values has been devastating. When a $100,000 property is dumped on the market by the VA for $44,000, it has an immediate effect on other property values in the neighborhood. For example, when the next door neighbor realizes that his $100,000 home is now worth only $44,000 as a result of the VA's dumping procedure, he understandably wonders why it makes any sense for him to continue to make payments on his loan. The end result is that many homeowners - veterans and non-veterans - are discouraged from continuing their house payments. They are abandoning their homes which in turn results in more foreclosures.

The problem is circular. The economic problems have led to an unfortunate increase in foreclosures. Then the "quick sale" or dumping of properties by the VA at below market values has driven down the values of other properties. That in turn has resulted in more foreclosures.

Who has been hurt by the VA's dumping policies? Lenders....The Veteran... and The Builder.

Veterans are losing their homes at a record rate. While the original intent of the VA Home Loan Guaranty Program was to make home ownership available to our veterans, the new policies and practices of the VA are taking that home ownership away. And the veterans are losing more than their homes.

The veteran not only loses the equity he/she may have built up in the home, the foreclosure may result in a substantial deficiency which the VA is mandated to pursue and a lender must pursue.

The foreclosure affects the veteran's credit rating and, therefore, his/her ability to borrow in the future for home ownership as well as other purposes. Non-home owning veterans are also affected. The change of policy and procedure by the VA has driven many VA lenders and potential VA lenders out of the market. There are a lesser number of sources for VA loans now available to other veterans.

Even those lenders who have remained in the VA loan market have been required by the change of policy to change their own practices or standards for making VA loans. Many lenders have substantially tightened their underwriting requirements for VA loans.

This probably is not all of the harm caused to the veteran by the VA's changed policy. Is this really the way we want to repay our veteran for his/her service to this country?

The operation of the Program today is resulting in putting veterans out of their homes with a still existing debt burden, requiring them to pay taxes on money never received, and ruining their credit rating. Moreoever, the policy is eliminating or restricting potential home ownership for other veterans.

Others are impacted by the changed policy as well: Cities with reduced tax base as a result of reduced values and builders with reduced markets are others that are prominent.

So the problem is global in the sense that it affects many individuals and many industries. The impact on the veteran is the most significant and the most critical.

The VA auctions of foreclosed properties should stop. The "dumping" of properties on the market with the resultant dimunition in the value of other properties should cease. The pressure being applied by the VA on its appraisers to drive down the appraisals being used for foreclosure purposes must end. The VA should return to an orderly liquidation of its property inventory even if that takes more time and results in a retention of the inventory for a longer period.

Dumping problems have created a crisis in Texas - especially in the Houston area. The status quo cannot continue. The veteran and those who are trying to help the veteran are entitled to something more.

CONCLUSION

In closing, I would like to thank you and the committee for this opportunity to appear before you and to emphasize support of the National Association of Home Builders for an increase in the loan guarantee maximum, an exemption from mortgage ceilings, a provision for an adjustable rate mortgage, and direct endorsement of VA appraisals, so that veterans will be better assisted in obtaining home loans. We as an association oppose the increase in VA user fees. It is essential that the VA remain true to its basic responsibility of providing credit assistance to veterans for the purchase of housing and to make maximum use of the Loan Guarantee Program. The Loan Guaranty Program entitlement should not be denied our veterans and service personnel who have so ably served our country. Additionally, it is imperative and incumbent upon the Veterans Administration to establish a foundation upon which this community can rebuild itself and thus withdraw from the programs that are destroying the homebuilding market place.

I would be pleased to respond to any questions that you might have.

Thank you.

July, 23, 1987

U. S. House of Representatives
Committee on Veterans' Affairs
335 Cannon House Office Building
Washington, D. C. 20515

Attention: Marcy Kaptur, Chairwoman
Subcommittee on Housing and Memorial Affairs

My name is James W. Shelby and I have been a resident of Harris County, Texas, for slightly over 30 years. I came to this area in 1957 from Hardin County, Tennessee, and became involved in real estate appraisal work in 1961. I had accrued about 6 months experience when Hurricane Carla swept across the Texas coast inundating large numbers of homes. My employer, Mr. Norvel F. Favela, was an approved VA fee appraiser, and a large portion of my work for the remainder of 1961, all of 1962, and a portion of 1963 involved before and after or "as is" and "as repaired" value estimates on foreclosed properties which had been flood damaged. Subsequent appraisals in areas devastated by flood damage indicated that properties which were damaged, repaired and resold, regained market acceptability with no measurable residual obsolescence.

In 1966, I became a HUD approved fee appraiser and performed work for FHA until the early 1970's when my workload required me to limit activity. I became a VA approved fee appraiser in the early 1970's and have accepted work since that time. The current experience with foreclosures is beyond any which has occurred within the 26 year scope of my experience. Historically, VA has always been able to manage, recondition and resell foreclosure properties with no major loss.

The market activity, construction and absorption of new and resale homes commencing in the late 1970's had also advanced to levels not previously experienced in this area. The sharp reversal of absorption which occurred in the summer of 1982 resulted in a major oversupply of new and used homes which were marketed very aggressively. Financing terms extended almost assured a future problem when examined in retrospect. Instances of discount points in excess of 20 to originate loans were noted at one time and buydowns of adjustable rate mortgages were common. These and other similar actions resulted in almost all the aforementioned oversupply having its impact delayed rather than eliminated. During this period, VA and other agencies were obligated to maintain operations which only compounded the problem.

Policy decisions and actions by numerous out-of-state lenders during the past 18 to 24 months have also contributed to the current problem in the local market since foreclosed properties have been sold at greatly reduced prices either by traditional marketing methods or auctions. These properties have subsequently been exposed as rental units or as resale properties typically with some mark-up. Most Texas lenders appear to have resisted this type of action and are currently offering their inventory in competition with the aforementioned homes and inventory from Government agencies. This has resulted in a continuing oversupply and spiraling downward prices.

Currently, some reporters are claiming that the market is bottoming out and that a resurgence of prices may be in the offing. I received a call from a P.M.I. company recently seeking data to support reinstatement of 95% conventional loan to value ratios in this area. I was unable to provide research required for this type study and referred the call to another office. VA has typically been required to guarantee 100% loans. My personal experience with the VA loan guaranty program has resulted in the observation that the staff is very competent but overworked due to reductions to conform to policy. Fee appraisers are currently restricted from any activity that might reduce the effectiveness of the staff and strict timeliness requirements are maintained. Even with these constraints, qualified veteran purchasers are able to have loan applications processed in a timely manner. Fee appraisers currently have 10 days from date of assignment on a new loan to deliver a complete finished appraisal report to VA.

Very truly yours,

James W. Shelby, MAI-SRA

JWS:gt

TEXAS VETERANS LAND BOARD
GARRY MAURO, CHAIRMAN
TEXAS VETERANS HOUSING ASSISTANCE AND HOME IMPROVEMENT PROGRAMS

On November 8, 1983, Texas voters approved the constitutional amendment which authorized $500,000,000 in bonds to fund the creation of the Texas Veterans Housing Assistance Program. The first loan was purchased by the Board on January 23, 1984.

Under this program, eligible Texas veterans may qualify for a loan of up to $20,000.00 at an interest rate set by the Veterans Land Board (currently 9.00%) payable over a thirty-year period to use toward the purchase of a home in the State of Texas.

In late 1985, the Board created the Veterans Home Improvement Loan Program under the powers authorized by the statue and constitutional amendments which established the Housing Assistance Program

An eligible Texas veteran may qualify for a Home Improvement loan of up to $15,000 at an interest rate set by the Veterans Land Board (currrently 10.50%) payable over a term ranging from 2 to 15 years.

These programs are administered under contract with the Board by Lomas & Nettleton, a nationally recognized institution experienced in the administration of mortgage lending programs. Loans are originated and serviced through qualified private lending institution in the State of Texas that are approved by the Board. The cost of administering the Veterans Housing Assistance Program, the Veterans Home Improvement Program and origination and servicing the loans are paid from fees charged the veteran and from investment and other income of the Veterans Housing Assistance Fund.

Collateral for these loans is as follows:

Housing:

1. Co-equal first mortgage where it is a blended loan with the local lender financing amounts over $20,000.
2. First mortgage where the total loan equals $20,000 or less
3. Subordinated second lien where the transaction resulted from an assumption.

Home Improvement:

Mechanic and materialman's lien.

These loans are made under FHA Title I guidelines, and the loan originator must be a qualified Title I lender.

As of February 28, 1987, a total of $750,000,000 in Veterans Housing Assistance Bonds had been issued; $250,000,000 remained authorized but unissued.

TEXAS VETERANS LAND BOARD
GARRY MAURO, CHAIRMAN
VETERANS' HOUSING ASSISTANCE PROGRAM

Eligible Lenders ("Participants")

A Bank, trust company, savings bank, national banking association, savings and loan association, building and loan association mortgage banker, mortgage company, credit union, life insurance company, or other financial institution that customarily provides service or aids in the financing of mortgages on single family residential housing or any holding company for any of the foregoing.

Must be approved to do business in the State of Texas and have an office in the State.

Must meet criteria established by the Board for participation in the Program, including, with regard to participation mortgages, suitable experience in the origination and/or servicing of such loans as evidenced by membership in appropriate industry associations, approval as a seller and/or service by FDIC, FSLIC or NUCA, and/or maintenance of minimum net worth levels.

Maximum Loan Amount

$20,000.

Maximum Sales Price

There is no sales price restriction at this time.

Eligible Loan Area

The geographic limits of the State of Texas.

Interest Rate

First Mortgage Evidence by Two Notes: 9.00%
First Mortgage Evidence by a Program Note with no Participant Note: 9.175%

Eligible Borrowers

Currently, there are approximately 1.8 million Veterans in the State of Texas.

Veterans living in Texas are eligible if they:

(i) served at least 90 consecutive days, unless sooner discharged by reason of a service-connected disability, or active duty after 9-16-40 and before 1-1-77 with the Army, Navy, Air Force, Marines, Coast Guard, or United States Public Health Service, and has not been dishonorably discharged from the branch of the service in which he served, and

(ii) applied for the Program Loan before the later of

(a) the date thirty (30) years after the date on which such Veteran left active service, or

(b) January 1, 1985, and

(iii) were a bona fide resident of Texas at the time of entry into the military service or have been a bona fide resident of Texas for at least five consecutive years immediately prior to filing for an application with the Board, and

(iv) are a bona fide resident of Texas at the time of application, and

(v) were honorably discharged from or are currently serving in the Armed Forces.

the Veterans Affairs Commission of Texas, not the Participant, will determine a Veterans' Eligibility in terms of service in the Armed Forces and residency in the State of Texas.

Cosignors/Guarantors

Cosignors and guarantors may be accepted on behalf of the Eligible Borrower if the Eligible Borrower has sufficient income to qualify for at least 60% of the monthly payments on the Mortgage Loan, including taxes and insurance.

First Mortgage Loans Evidenced by Two Notes

a participation in a mortgage loan evidence by a program Note and Participant Note and secured by one and the same Deed of Trust.

The Program Note may be used in conjunction with any Participant. Note acceptable to FNMA/FHLMC, FHA or VA.

Conventional Mortgage Loans

(i) Mortgage Loans having an original principal balance exceeding 80% of the lesser of the appraised value or sales price of the Home must be insured by a qualified insurer for private mortgage insurance with a minimum down payment of 5% and be insured in the amount by which the loan exceeds 72% of the lesser of the appraised value or sales price of the Home.

VA Mortgage Loans

VA Mortgage Loan original balances may not exceed 100% of the lesser of the appraised value or sales price of the Home.

FHA Mortgage Loans

(i) FHA Mortgage Loan original balances may not exceed 97% of the lesser of the appraised value or sales price of the Home.

(ii) The mortgage insurance premium for FHA loans will be the standard amount as required by HUD.

Take-Out Loans

The proceeds of all Programs Loans must be used to provided purchase money financing of Residences and not to acquire or replace existing mortgages.

The interest rate, origination fee and primary insurance requirements depend upon whether the first mortgage is evidenced by a Program Note and a Participant Note or by only a Program Note However, the 2% Origination Fee on First Mortgage Loans evidenced by a program Note with no participant Note will be paid completely by the Eligible Borrower (since there is no seller in a Take-Out Loan situation). See guidelines for First Mortgage Loans Evidenced by Two Notes and first Mortgage Loans Evidenced by a Program Note with No Participant Note.

A Take-Out Loan may be made to permit an Eligible Borrower to finance a Residence which qualifies as a newly constructed residence and retire any indebtedness thereon if:

(i) the Program Loan will be used as a Take-Out of the construction or bridge or interim loan, and

(ii) the term of the construction or bridge or interim loan being refinanced does no, as of the closing of the respective Program Loan, exceed 24 months and such indebtedness originally arose within 24 months of the Closing Date of the Program Loan

(iii) an Eligible Borrower may occupy a newly constructed residence during the term of the construction or bridge or interim loan and still qualify for Take-Out Loan.

Two to four family units are not eligible for Take-Out loans.

Occupancy of Property

The Eligible Borrower is required to occupy the Home within 60 days following The Closing Date, and must occupy the Home as he eligible borrower's Principal residence for a period of three years.

In the event the Eligible Borrower fails to comply with the requirements, the Board may require the acceleration of all moneys due the Board or the escalation of the interest rate on the Program Loan to prevailing market rates.

Term of Program Loan

30-year level payment mortgage.

Types of Property

Single family attached and detached houses,, townhouses, units of a condominium development, HUD code manufactured housing that meets FNMA guidelines and town to four family units which units were constructed and first occupied as residence at least 5 years prior to the Closing Date.

Prepayment

Program Loans will be prepayable, in whole or in part, at any time without penalty or premium.

Permitted Encumbrances

All Programs Loans under these guidelines must be secured by a first lien on a fee simple title or buy a first lien on a leasehold estate having a term of at least 30 years, subject only to those liens, covenants, condition and restrictions, rights of ways, easements and other matters of public record as of the date of the recording of the mortgage and permitted under FNMA General Title Waivers (see Form Index No.5).

TEXAS VETERANS LAND BOARD
GARRY MAURO, CHAIRMAN
VETERANS' HOUSING ASSISTANCE PROGRAM
HOME IMPROVEMENT LOANS

BOTH THE LENDER'S GUIDE AND THE HUD HANDBOOK MUST BE USED BY LENDERS IN THE ORIGINATION OF HOME IMPROVEMENT LOANS UNDER THIS PROGRAM.

Eligible Lenders ("Participants")

A bank, trust company, saving bank national banking association, savings and loan association, building and loan association, mortgage banker, mortgage company, credit union, life insurance company or other financial institution that customarily provides service of mortgages on single-family residential housing or any holding company for any of the foregoing.

Must be approved to do business in the State of Texas and have an office in the State.

Must be approved by FHA to orginate HUD Title I loans specifically and must be familiar with the procedures set forth in the HUD Title I Property Improvement Loan Operating Handbook.

Must comply with requirements for annual recertification as a Participant including payment of annual recertification fee of $50 due on January 1 of each year.

If a Home Improvement Loan is to be secured by a second mortgage, Participant must hold a State of Texas Lending License specifically authorizing Participant to originate Secondary Mortgage Loans.

Minimum Principal Amount of Program Note

$4,000.00

Maximum Principal Amount of Program Note

$15,000.00 for single family residence

$8,750 per unit for 2-4 family residences ($10,000 if financing is for the installation of a solar system), but in no event may be greater than $15,000.

Eligible Loan Area

The geographic limits of the State of Texas

Note Rate

10.50%

FHA Title I Insurance Premium

.50% annually of the original principal balance of Home Improvement Loan.

Term of Loan

Between 2 year and 10 year level payment Mortgage for Home Improvement Loans less than $7,500.

Between 2 year and 15 year level payment Mortgage for Home Improvement Loans greater than or equal to $7,500.

Principal and Interest Factor

Term of Loan	Factor
2 years	.0463760
3 years	.0325024
4 years	.0256034
5 years	.0214939
6 years	.0187790
7 years	.0168607
8 years	.0154400
9 years	.0143509
10 years	.0143509
11 years	.0128045
12 years	.0122414
13 years	.0117750
14 years	.0113813
15 years	.0110540

Example:

15 year loan in the amount of $10,000 would be calculated as follows: .0110541 x 10,000 = 110.54. *

The Veteran's monthly principal and interest payment equals $110.54. *

Eligible Borrower

Currently, there are approximately 1.8 million Veterans in the State of Texas.

Veterans living in Texas are eligible only if they:

(i) served at least 90 consecutive days of active duty after 9-16-40 with the Army, Navy, Air Force, Marines or Coast Guard, and were eligible to receive a discharge or release under conditions other than dishonorable or were discharged earlier due to service-connected disability;

(ii) were a bona fide resident of Texas at the time of entry into the military service or have been a bona fide resident of Texas for at least five consecutive immediately prior to filing for an application with the Board;

(iii) are a bona fide resident of Texas at the time of application;

(iv) were honorably discharged from are currently serving in the Armed Forces, and;

(v) have not previously participated in the Texas Veterans Home Improvement Loan Program.

The Texas Veterans Commission, not the Participant, will determine a Veterans' eligibility in terms of service in the Armed Forces and residency in the State of Texas.

Eligible Improvements

Alterations, repairs and improvements eligible for financing under the HUD Title I Program.

All work or construction completed must be in compliance with all applicable building and housing codes and standards to be eligible for a Home Improvement Loan.

Cosigners/Guarantors

Cosigners are not permitted on Home Improvement Loans.

Types of Loans

FHA Insured Title I Home Improvement Loans.

Home Improvement Loans may be either Direct Loans or Dealer Loans.

Direct Loan

A Home Improvement Loan originated by a Participant which meets the following conditions:

(i) The Home Improvement Loan must be applied for directly by the Eligible Borrower;

(ii) the credit application must be signed by the Eligible Borrower;

(iii) the Home Improvement Loan proceeds must be delivered directly to the Eligible Borrower without the intervention of an intermediary; and

(iv) the Home Improvement Loan proceeds may be used to pay in full an interim loan to finance the completion of all improvements; or

(v) the Home Improvement Loan proceeds may be used to directly finance the completion of all improvements.

Dealer Loan. A Home Improvement Loan which involves an intermediary in the application and/or disbursement of the loan proceeds. Such intermediary must:

(i) be a person, firm, partnership, corporation or other similar business entity; and

(ii) have a financial interest in a contract for the repair, alteration or improvement of the Eligible Borrower's property.

Veteran Eligibility and Funds Reservation Procedure

The procedure for determining Veteran eligibility and reserving funds will be as follows:

(i) Veteran request application for Certificate of Eligibility from the Veterans Land Board

(ii) Veterans Land board sends veteran an application for Certificate of Eligibility (including list of approved contractors if applicable);

(iii) Veteran completes the form and returns along with $25.00 certification fee to the Texas Veterans Commission for approval;

(iv) The Texas Veterans Commission approves the Veteran's eligibility and forwards notice of approval to the Veterans Land Board, or notifies the veteran in the event of rejection; and

(v) The Veterans Land Board issues a Certificate of Eligibility and forwards the original and yellow copy to the Veteran.

Note: Funds are reserved upon issuance of Certificates of Eligibility are valid for 180 days from the date of issue.

TESTIMONY OF DR. JAMES P. GAINES TO
THE HOUSE VETERAN'S AFFAIRS SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
JULY 31, 1987, HOUSTON, TEXAS FIELD HEARING

My name is Dr. James P. Gaines. I am currently Vice President of the Rice Center in Houston, Texas. The Rice Center is an urban research institute affiliated with Rice University which, since its inception in 1972, has been active in monitoring, analyzing, and interpreting Houston's growth and development. Over the years, Rice Center has become noted for its analysis of Houston's economy, demography, and real estate development.

My position at Rice Center involves supervising the economic, demographic, and real estate research conducted at the Center. We appreciate the opportunity to testify today on this issue of considerable importance to the Houston community as well as to the nation at large.

BACKGROUND

Rice Center conducted research analyzing the impact of foreclosure activity on residential property values in the past two years. The level of foreclosures in Houston since 1984 has increased substantially as shown in Exhibit 1. Of relevance to this hearing, the level of VA foreclosures has shown a parallel increase. The total number of foreclosures in the Houston metropolitan area have grown from 9,075 in 1984 to 17,393 in 1985, to 26,919 in 1986 and to approximately 16,045 for the first half of 1987.

According to the Trustee Deeds analyzed by BACA Information Services, the VA share of foreclosure activity has ranged from 1,094 in 1984 to 2,418 in 1985 to 2,208 in 1986. These years of VA foreclosure activity represent 12.1 percent, 13.9 percent, and 8.2 percent of total foreclosure activity each year, respectively. For the first half of 1987, VA foreclosure activity represents approximately 10 percent of total foreclosures. These data indicate that while the VA is not the majority player in the foreclosure market, it is, nevertheless, a significant player.

The level of foreclosure activity in Houston has been due, at least in part, to the economic recession Houston has experienced since 1982. The economic problems in Houston are relatively well known. With the fall in oil prices commencing in 1981 and the further dramatic oil price reductions in late 1985 and early 1986, Houston's basic energy industries went into severe decline. Between March 1982 and May 1987, the Houston metropolitan area has lost approximately 213,500 wage and salary jobs, and the area has experienced outmigration of an estimated 196,600 people in the past four years. These factors, combined with the general over building in the residential market and the impacts of the "creative financing" packages of the early and mid-1980s, have caused residential property values to decline. In some neighborhoods the loss in value has been as much as 30 to 50 percent from peak value periods of 1981 and 1982 to today.

The Analysis of VA Foreclosure Activity

The fundamental issue Rice Center addressed was: Have VA foreclosures contributed to residential property value declines in the Houston neighborhoods?

Rice Center addressed this issue by collecting extensive data on foreclosure and non-foreclosure sales activity throughout Houston. The data were used to compare residential subdivisions in the Houston metropolitan area with relatively high incidences of VA foreclosure activity to subdivisions with relatively low levels of VA foreclosures. Rice Center collected foreclosure and nonforeclosure data on 245 subdivisions that had experienced at least 10 foreclosures in 1986 or five foreclosures in 1987. Price data were obtained from a local sales retrieval service which had converted reported sale prices to price per square foot and which had eliminated foreclosure sales from the data base.

To test for the effect of foreclosure activity on property values, six subdivisions which had experienced relatively high numbers of VA foreclosures over the past 18 months were compared to eight subdivisions which had experienced relatively few VA foreclosures. These subdivisions were selected based on price data availability covering the period from 1980 through 1987. The changes in average property values in these neighborhoods are shown in Exhibit 3.

In those subdivisions with relatively low VA foreclosure activity, the average price per square foot declined $8.30 from 1980 to the current 12-month average, or 19.4 percent. In the subdivisions with relatively high VA foreclosure activity, the average price per square foot fell $10.84 from 1980 to the current 12-month average, a decline of 26.8 percent. These percentage declines were statistically significant at the 99.9 percent level. These data are summarized in Exhibit 3.

Another indicator of the relative impact of VA foreclosure activity is a comparison of the average VA foreclosure sale prices to the prices properties in the same neighborhood are bringing in non-foreclosure sales. An analysis of seven of the high VA foreclosure neighborhoods reveals that while the most current 12-month average price for properties was $29.57 per square foot, the average VA foreclosure price was $26.87 per square foot, a difference of $2.70 per square foot, or 9.2 percent less.

While the above data treated subdivisions at the relative extremes of VA foreclosure activity, we also looked at a "middle" subdivision. Bridgestone subdivision has experienced 201 foreclosures since January 1986 or about 14 percent of the total number of developed lots in the subdivision. Of those, 19 were VA foreclosures.

The average price per square foot of properties in Bridgestone for the three-year period May, 1984 to June, 1987 was $34.58. The average price per square foot for the most current 12 months (May, 1986 to June, 1987) declined $1.92 to $32.66 per square foot. These figures reflect prices of properties sold through the MLS and represent current market conditions in the subdivision. The scatter diagrams in Exhibit 4 show that the 1986 VA foreclosure sales were at or near market levels, but by 1987 the VA sales were considerably below market.

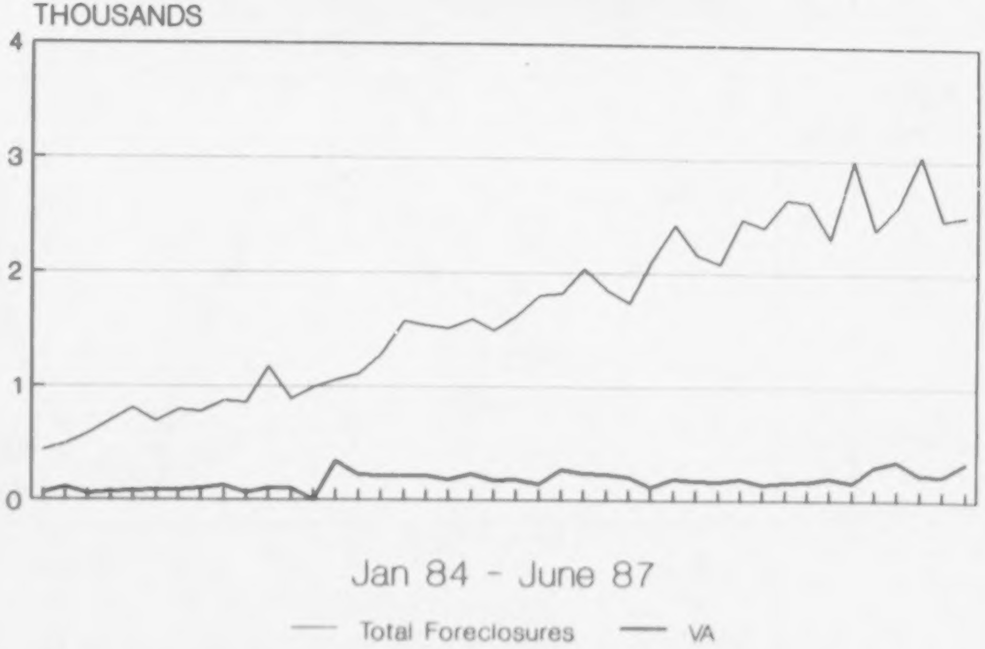
CONCLUSIONS

The data presented above give evidence to the general impact of foreclosures in the Houston market, and the VA foreclosures in particular. The loss in value of Houston residential real estate is not the fault of foreclosure actions or policies by either VA nor any other lender or institution. However, foreclosure activity on the whole market, and most especially to individual subdivisions where foreclosures are more pronounced, certainly contribute to the overall diminution of property values. Indeed, it is a bit of circular causation -- lower property values contribute to foreclosures which contribute to lower property values, which contribute to . . .

If all lenders or involved institutions decided to dump unwanted or problem properties on the market, taking any price at all to dispose of them, the impact on the market could be catastrophic. Property values would plummet further creating even more problem properties and problem loans to the same institutions. In short, lenders would wind up cutting their own throats by throwing the market into disarray. To the extent that the recent VA foreclosure auctions with no minimum bids represents a dumping of properties on the market, significant values losses in those neighborhoods can be expected.

EXHIBIT 1

RESIDENTIAL FORECLOSURES
HOUSTON AREA

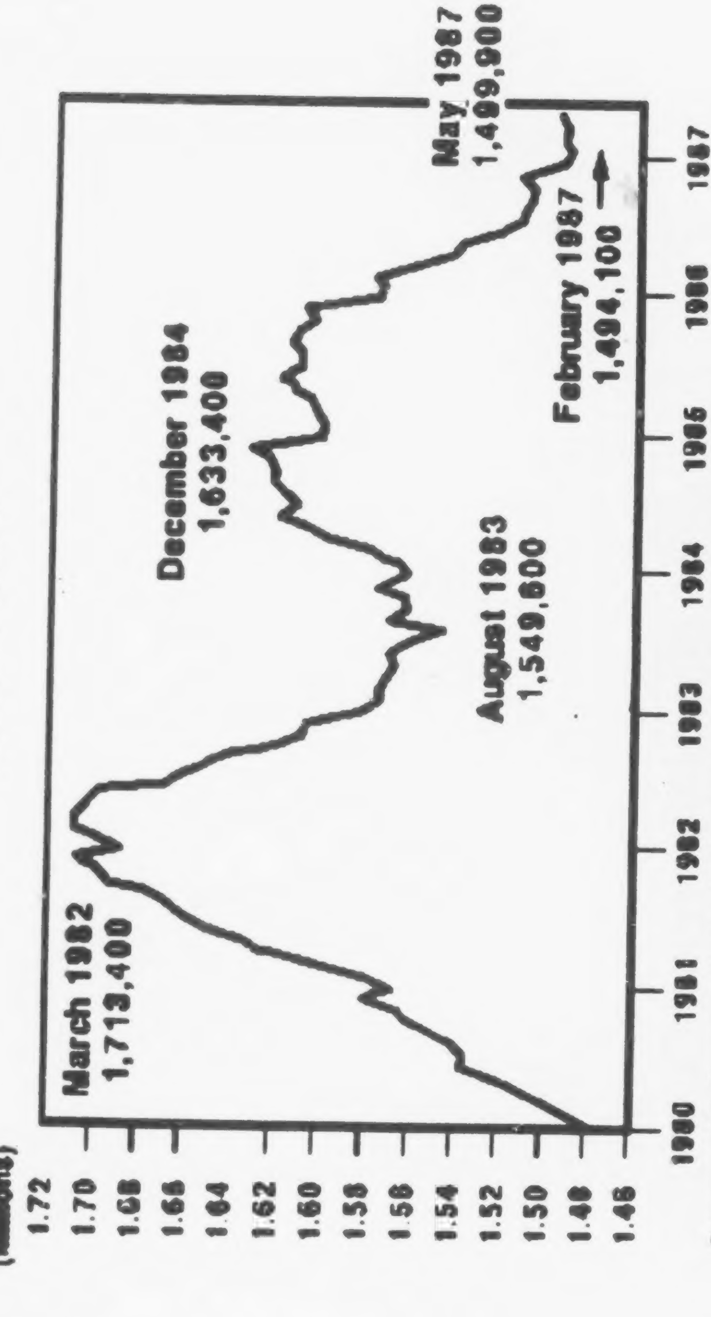


Source: BACA Real Estate Information

EXHIBIT 2

MONTHLY WAGE AND SALARY EMPLOYMENT

Houston CMSA



Sources: U.S. Bureau of Labor Statistic and Texas Employment Commission

EXHIBIT 3

RELATIVELY LOW VA FORECLOSURES

	SUBDIVISION	AVG SQFT	$ PER SQFT 1980	$ PER SQFT LAST 12 MONTHS	1980-12MO	PERCENT CHANGE IN VALUE 1980 TO LAST 12 MONTHS
1	BRAEWOOD GLEN	1654	45.31	33.59	11.72	0.26
2	SOUTHBEND	1615	40.87	31.42	9.45	0.23
3	ASHFORD PARK	2064	43.60	34.66	8.94	0.21
4	WESTBRANCH VILLAGE	1558	41.72	34.13	7.59	0.18
5	KEEGANS GLEN	1741	34.46	33.00	1.46	0.04
6	CONCORD BRIDGE	1500	43.00	32.36	10.64	0.25
		MEAN	41.49	33.19	8.30	0.194
		STD	3.44	1.08	3.32	0.073

RELATIVELY HIGH VA FORECLOSURES

SUBDIVISION	AVG SQFT	$ PER SQFT 1980	$ PER SQFT LAST 12 MON.	1980 12MO	$/SQFT VA 87	PERCENT CHANGE IN VALUE 1980 TO LAST 12 MONTHS
GLEN IRIS	1108	45.13	30.67	14.46	24.32	0.320
BIRNAM WOOD	1409	42.58	25.84	16.74	23.22	0.393
STERLING GREEN	1444	41.55	31.78	9.77	28.11	0.235
GREENGATE PLACE	1566	37.99	30.42	7.57	24.23	0.199
RUSHWOOD	1467	37.15	27.53	9.62	29.23	0.259
WESTBANK	1459	38.04	28.97	9.07	25.50	0.238
FALLBROOK	1193	43.17	32.14	11.03	30.95	0.255
KINGS LAKE FOREST	1298	42.37	30.28	12.09		0.285
	MEAN	40.41	29.57	10.84	26.87	0.267
	STD	2.38	2.11	2.75	2.77	0.057

TEST 1: Test for percentage decline in value from 1980 to last twelve months.

V_POOLED = 4.177
S_POOLED = 2.044

COMPUTED t - VALUE = -23.4627
SIGNIFICANCE LEVEL: 99.9%

TEST 2: Test for difference between mean price per square foot of the last twelve months versus VA foreclosures in 1987.

V_POOLED = 5.929
S_POOLED = 2.435

COMPUTED t - VALUE = 1.988
SIGNIFICANCE LEVEL: 90%

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FORMULAS:              ((N1 - 1) * STDEV1) + ((N2 - 2) * STDEV2)                                XBAR1 - XBAR2 - 0
          V_POOLED =   ------------------------------------------                  T = ------------------------------------
                                      N1 + N2 - 2                                      S_POOLED * SQRT((1/N1) + (1/N2))


          S_POOLED =   SQRT(V_POOLED)
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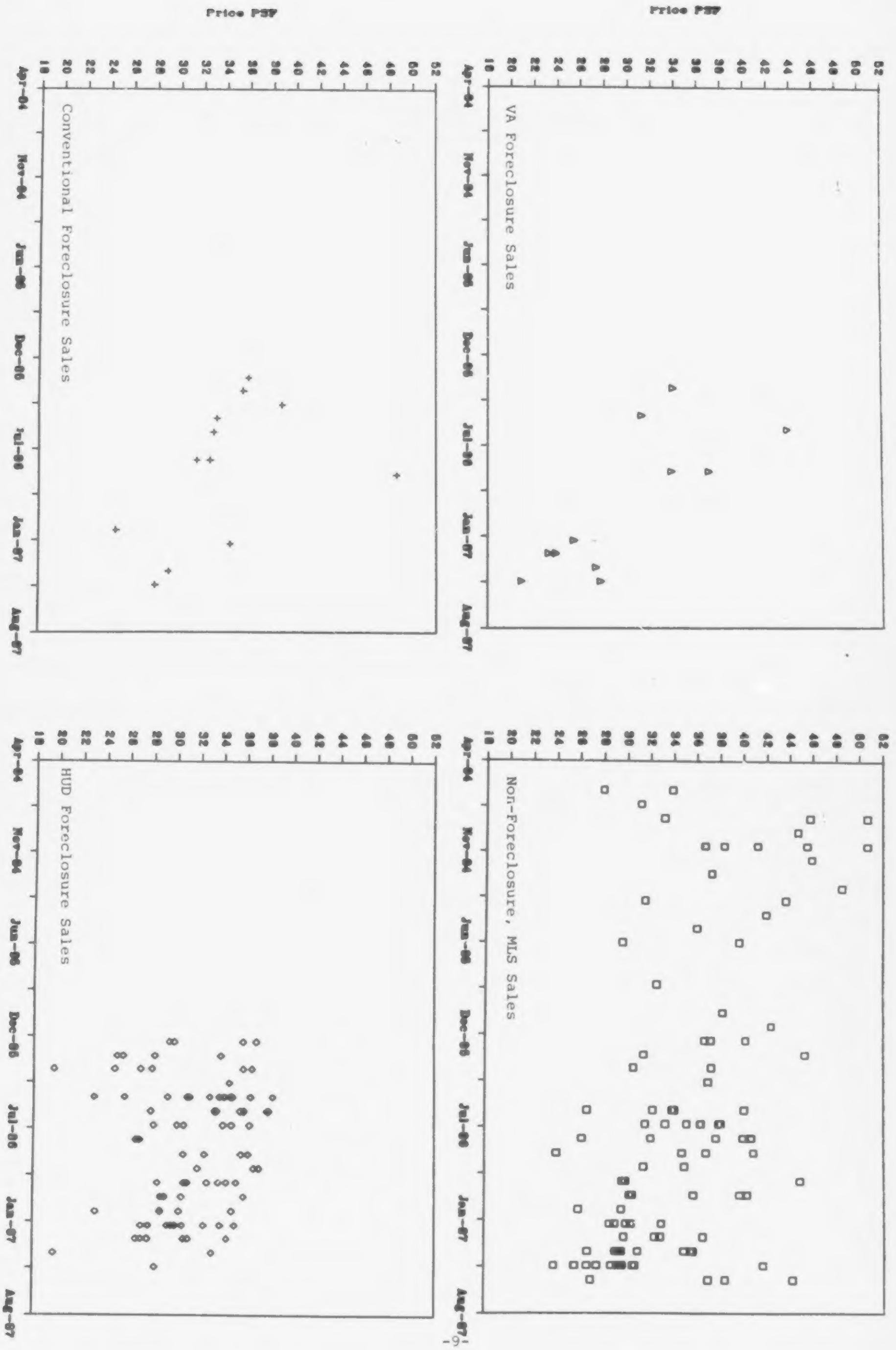
Exhibit 4

Bridgestone



AMERICAN
MORTGAGE COMPANY

JAKE KAMIN
CHAIRMAN OF THE BOARD
PRESIDENT

September 4, 1987

VIA FEDERAL EXPRESS

The Honorable Chairwoman Marcy Kaptur
Subcommittee on Housing and
Memorial Affairs
U.S. House of Representatives
335 Cannon Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

In response to your request that Dr. Jim Gaines, of Rice University Research Center, and I enter into researching the advantages of interest subsidy for veterans who are in default and about to lose their homes, as compared with what is happening now, and that is foreclosure, the research reveals an amazing report and confirms our comments to you and your committee during the Subcommittee Hearing in Houston. It does seem to me that, when the VA insurance costs are added to the loss in the resale of houses because of dumping programs that have taken place, this is a far better way to handle the distressing problems of the veteran. I shall be more than pleased to come to Washington, along with Dr. Gaines, if you find that you would like to discuss it further.

I do appreciate all that you have done on behalf of the veteran borrower and the lender in seeking out a way to best serve all involved, including the VA.

Sincerely,

Jake

Jake Kamin

JK:cat
Enclosure.

(Dictated by Mr. Kamin and
signed in his absence.)

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RICE CENTER

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corporation

Nine Greenway Plaza
Nineteenth Floor
Houston, Texas 77046
713-965-0100

Mr. Jake Kamin, Chairman of the Board, American Mortgage
Company, P.O. Box 61283, Houston, Texas 77208

3 September 1987

JAKE, pursuant to our agreement of 13 August 1987, please find enclosed our findings on the cost effectiveness of a temporary refinancing/interest subsidy program for VA home loans.

We have based our analysis on data supplied by the VA's Houston Regional Office on their foreclosure sale experiences for FY 1987 through 31 July 1987. I should add that the VA office has been most cooperative in sharing data with us, and we appreciate their help.

The figures we have developed compare a potential refinancing program for veteran/borrowers with interest subsidies by the VA to as low as 4 percent. The refinancing/subsidy would be for either 24, 36 or 48 months and underwritten by the VA. The subsidy would be necessary, as you indicated in your testimony before the VA Subcommittee, in order to preserve the integrity of the GNMA mortgage pools where most VA loans reside.

The results indicate that compared to the actual losses reported in Houston to date from selling foreclosed properties, the cost of a temporary refinancing/interest subsidy program would be beneficial to the VA. Perhaps equally important, the veteran/borrower would retain his or her property, and the neighborhood would not suffer from the effect of foreclosure. Moreover, such a program may well prove to be of value not only in Houston but throughout the country.

I hope this analysis proves useful in the VA deliberations. Rice Center is pleased to have had the opportunity to be of service, and we stand ready to continue this line of research should additional information be needed.

Sincerely,

James P. Gaines
Vice President

JPG:kkl
Enclosures

A TEMPORARY REFINANCING/INTEREST SUBSIDY PROGRAM FOR VA HOME MORTGAGES

Between October 1986 and July 31, 1987 the VA sold 2,730 homes that it had acquired through specified bid foreclosures and 549 properties that were re-foreclosures. Of the properties it sold directly, the VA's average loss on sale was $23,494 per property. The VA's total net loss for the ten-month period was more than $64 million. These costs do not include the guarantee payments on the no-bids, the value effects on the properties as they sat empty on average for nearly a year, the detrimental effect to surrounding property values, the loss of a home to the veteran borrower, and the impact on his or her credit rating.

A potential alternative to foreclosuring on a delinquent VA loan is a program of temporary refinancing for up to 48 months with the VA providing an interest payment supplement to cover the difference in monthly payments. The following is an overview of how such a program might work with a cost comparison analysis of implementing a temporary refinancing program versus current practices.

Essential elements of a Temporary Refinancing/Interest Subsidy (TRIS) Program:

- Statistically, most VA foreclosures today involve loans carrying interest rates of 11 percent or higher. The refinancing would be made available only to borrowers who can demonstrate the ability to carry monthly payments at interest rates as low as 4 percent.
- Refinancing would be offered for 24, 36, or 48 month periods at which time the loan would revert to its original interest rate, be paid off, or be refinanced completely with a new loan.
- Delinquent payments would be capitalized and added to the loan amount or set aside in a separate capital account. Another possibility is for loan servicers to pay up to three months of delinquent payments to keep a loan current.
- The amount of VA interest subsidy would accrue to a separate capital account for which the borrower would sign a promissory note for repayment under the veteran's indemnity obligation to the VA.
- The borrower would not be required to repay the separate capital account note until he or she sells the house or completely repays the original mortgage. The separate capital account would accrue no interest.

- o Interest subsidy by VA would be in lieu of paying the guarantee or acquiring the property through foreclosure and selling it. The subsidy would keep payments to the GNMA mortgage pool current to maintain investor confidence in and the integrity of the issue. The subsidy could be handled one of two ways: on a monthly basis by VA or as an up-front subsidy of a predetermined amount administered by the servicer.

The following data are from the average loan experience reported by the Houston Regional VA Office for October 1986 through July 1987:

Average Cost to Acquire Property By Specified Bid	$58,079
Average Selling and Direct Expenses (Taxes, Assessments, Commissions, etc.)	$ 5,348
Average Selling Price	$39,930[a]
Average Loss	($23,494)
Average Estimated Interest Rate	12.1%[b]

[a] Includes the October 1986 VA auction of 350 properties which brought an average of $22,721 and the June 1987 auction which had an average price of $12,586.

[b] Based on assumption that most foreclosed properties between October 1986 and July 1987 were originated in calendar year 1985.

Assume an average property is refinanced:

Original Loan $58,000 at 12 percent for 30 years
Original Mortgage Payment $596.60 (with maximum VA guarantee of $27,500)

If refinanced at:

	Borrower Payments	VA Monthly Subsidy	Total Subsidy For: 24 Months	36 Months	48 Months
4%	$276.90	$319.70	$7,672.78	$11,509.20	$15,345.60
5%	$311.36	$285.24	$6,845.84	$10,268.64	$13,691.52
6%	$347.74	$248.86	$5,972.64	$8,958.96	$11,945.28
7%	$385.88	$210.72	$5,057.28	$7,585.92	$10,114.56
8%	$425.58	$171.02	$4,104.48	$6,156.72	$8,208.96
9%	$466.68	$129.92	$3,118.08	$4,677.12	$6,236.16

The total subsidy necessary to refinance the average VA home loan is modest when compared to the reported per property loss from foreclosure sale. The data above indicate that the total per property subsidy would range from a low of $3,118 for 24 months to as high as $15,346 for 48 months. Even at a subsidized 4 percent interest rate carried for 48 months, the outlay is only 65 percent of the average $23,494 reported loss. Moreover, after the subsidy period, the subsidy outlay is still subject to recovery from the veteran, such that over time, no loss may occur.

The data shown in Tables 1 and 2 indicate the level of total subsidy that would have occurred over the last ten months as well as the amount of required subsidy per $1,000 of loan value. The subsidy requirement is maximized for those remaining VA mortgages made with 17 percent rates. If these loans are subsidized to 4 percent rates for the full 48 months, the total subsidy cost would be $455.52 per $1,000 of loan amount. (For a $50,000 loan, for example, the total subsidy cost would be $22,778, still less than the average $23,494 current loss). If the subsidy is repaid by permanent refinancing or upon sale of the property, there would be no loss at all.

The data from Table 2 reveal the total subsidy costs to the VA in the Houston area if the 2,730 foreclosed properties sold in the past ten months had been refinanced instead. Even at the greatest amount of subsidy (4 percent for 48 months), VA's cost would have been not quite $42 million compared to the more than $64 million loss it has reported to date. In reality, we estimate that the refinancing programs would not be available to all defaulted loans, but to some proportion of them. Nevertheless, the per property cost savings could be substantial.

Conclusion

The total subsidy costs on the average specified bid property compared to the reported per property losses, or to the amount of guarantee that the VA would have to pay on no-bids, are modest. Even at a subsidized refinanced interest rate of 4 percent, the VA would pay less than 55 percent of the guarantee or less than 35 percent of the reported loss ($15,346 compared to the $27,500 guarantee or $23,494 average loss). The potential savings to the VA, to the borrower, and to the community clearly favor some type of refinancing program.

The number of problem loans remains high not only in the Houston area but nationally as well. Through July 31, 1987, the Houston region VA office reported 16,553 defaults with another 15,697 defaults pending. Moreover, the office reported 4,538 properties were acquired, 3,854 property were sold, and 7,975 properties remained on hand. The high inventory of unsold properties were on hand despite 37 percent of defaulted loans being no-bidded.

The volume of potential problem loans remains significant. From October 26, 1979 until December 12, 1985, the VA mortgage rate was not below 11 percent. According to one large VA loan servicer in the Houston area, nearly 25 percent of the VA loans in its portfolio carry an 11 percent interest rate or higher. These potential problem loans are not unique to the Houston area, but exist nationwide as well. As different areas of the country experience cyclical economic conditions, the applicability of a refinancing scheme becomes more universal.

In our opinion, the mortgage companies servicing VA loans would be supportive of a TRIS program. No one benefits from a foreclosure. Therefore, to the extent that foreclosures can be avoided, loans can be kept current, and property values can be protected, the mortgage companies should be eager to participate in a program of refinancing.

Finally, while these data indicate the potential cost savings to the VA, the savings and advantages to the borrower, to the neighborhood, and to the community should be remembered. By refinancing, the veteran/borrower retains his or her home and credit rating and, the house remains occupied and maintained. The negative effects of foreclosure are mitigated to the extent of the applicability of refinancing. This is especially significant since VA loans tend to be concentrated in subdivisions of like properties.

TABLE 1

MONTHLY SUBSIDY PER $1,000 OF LOAN
(30-year term)

Original Interest Rate			Subsidy Rate			
	4%	5%	6%	7%	8%	9%
10%	4.01	3.41	2.78	2.13	1.44	0.73
11%	4.76	4.16	3.53	2.88	2.19	1.48
12%	5.52	4.92	4.29	3.64	2.95	2.24
13%	6.30	5.70	5.07	4.42	3.73	3.02
14%	7.08	6.48	5.85	5.20	4.51	3.80
15%	7.88	7.28	6.65	6.00	5.31	4.60
16%	8.68	8.08	7.45	6.80	6.11	5.40
17%	9.49	8.89	8.26	7.61	6.92	6.21

For an average $58,000 loan, total monthly subsidy would range from $232.58 to $550.42 if TRIS rate is 4 percent and original interest rate was between 10 to 17 percent. If the TRIS rate were 9 percent, the monthly subsidy would range from $42.34 to $360.18.

TABLE 2

TOTAL POTENTIAL VA SUBSIDY EXPENDITURES*

SUBSIDY RATE	Months of Subsidy 24	36	48
4%	$20,946,689	$31,420,116	$41,893,488
5%	18,689,143	28,033,387	37,377,850
6%	16,305,307	24,457,961	32,610,614
7%	13,806,374	20,709,562	27,612,749
8%	11,205,230	16,807,846	22,410,460
9%	8,512,358	12,768,538	17,024,717

*Based on 2,730 properties foreclosed and sold by the VA with an average loan amount of $58,000 for 30-years at an average original interest rate of 12 percent. Actual losses reported by Houston VA Regional Office were $64,138,620 not including claims paid on no-bids.

STATEMENT OF THE TEXAS VETERANS COMMISSION
BEFORE THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
JULY 31, 1987

Madam Chairwoman and Members of the Subcommittee:

The Texas Veterans Commission appreciates this opportunity to present its views on the current dilemma of the numerous foreclosures of home loans guaranteed by the Veterans Administration in the Houston area. We also appreciate the Subcommittee's interest in this matter and their concern for veterans.

While the number of home foreclosures in the Houston area is certainly cause for concern, we do not feel that it in any way warrants or justifies curtailment of the program which has provided loans to over 33,000 veterans residing in Texas during the current fiscal year. The Houston area is currently in an economic recession primarily due to the problems in the oil industry. Any further restrictions for participation in this fine program (e.g., increasing the user fee) would serve only to hamper veterans in other areas in securing adequate housing for themselves and their families, as well as affecting those veterans in the Houston area who might otherwise be able to participate in the program.

Here in Texas we are fortunate enough to have a State Veterans Housing Assistance Program and a Home Improvement Loan Program. Under the provisions of the Texas Veterans Housing Assistance Program, a veteran may borrow up to $20,000 from the State toward the purchase of a home. This loan may then be blended or combined with a VA Guaranteed Loan, FHA Loan, or other conventional loans. Since its inception in January 1984, over 25,000 veterans in Texas have applied for participation in this program. Many veterans have been given the opportunity to purchase a home at a low interest rate because of this program.

Blame for the increase in foreclosures cannot in any way be assessed to the Veterans Administration Regional Office in Houston. We feel that a part of the overall panacea to this problem could be the Veterans Administration's intensification of their efforts in encouraging the lending institutions to work more closely and compassionately with veterans who are experiencing temporary difficulty in maintaining their home loan accounts.

The Texas Veterans Commission stands ready to do what it can to help alleviate this problem. If we can convey information relating to measures which may be implemented to solve the foreclosure problems, we will do so through our publications and Veterans Counselors located in the Commission's field offices throughout the State.

Again we would like to extend to the members of the Committee, our sincere appreciation for allowing us to present our views on the home loan foreclosure dilemma in the Houston area. We are confident that a solution will be found, and that participation in the Home Loan Program by qualified veterans and certain widows will not be restricted.

Madam Chairwoman, that concludes our statement.

STATEMENT OF
JOHN W. PARKER
IMMEDIATE PAST COMMANDER
DEPARTMENT OF TEXAS
AND
RICHARD L. RICHARDS
NATIONAL SERVICE OFFICER
DISABLED AMERICAN VETERANS
HOUSTON, TEXAS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS AFFAIRS
July 31, 1987

MADAM CHAIRWOMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the Disabled American Veterans in the Department of Texas, we would like to say how much we appreciate the invitation to appear here today to provide testimony concerning the alarmingly high foreclosure rate in the State of Texas.

The DAV also wishes to commend you and the members of this Subcommittee for the serious oversight and legislative efforts undertaken this year to address the various problem areas and deficiencies in the VA Home Loan Guaranty program.

Madam Chairwoman, as you are aware, this alarmingly high foreclosure rate in the State of Texas is contributed to the economic problems that are associated with the oil and agriculture industries. Our area of the country is probably unique in that most jobs are related to the oil and gas industry. We have found in counseling with veterans that the majority of the foreclosures are caused by the veteran losing his job and having to take a job with less pay. Many loans are approved based on the reported salaries of the veteran and spouse. When one of these individuals loses their income, that means they can no longer pay their house note.

We are familiar with House Resolution 2672 which was introduced by you, Madam Chairwoman, on June 11, 1987, entitled The Veterans Housing Rehabilitation and Program Act of 1987, which proposes various improvements in the veteran's housing programs. We feel that Section 12 of H.R. 2672 that relates to establishing a mortgage foreclosure relief provision in Title 38, U.S.C. for the purpose of providing loans to refinance delinquent indebtedness on VA guaranteeing home loans, is a positive step in the right direction. This assistance would provide financial assistance to veterans facing foreclosure through no fault of their own for reasons of unemployment or substantial reduction in household income. This would benefit the veterans in the State of Texas tremendously.

As you are aware, the DAV strongly believes the Veterans Administration should personally contact and counsel each and every veteran who has defaulted on a VA Guaranteed Home Loan to insure that every avenue has been explored to assist the veteran and protect the best interest of the Government. Quite frankly, Madam Chairwoman, we do not feel this procedure has been adequately undertaken by the Houston VA Regional Office. One of the problems the VA Regional Office experiences in this area, is that they do not have adequate staffing to properly implement this procedure.

It is our opinion that the Loan Service and Claim Section of the Loan Guaranty Division at the VA Regional Office in Houston, Texas, should be adequately staffed to handle counseling to the thousands of veterans who have defaulted on their loans. Also, the VA should take more aggressive steps towards refunding of loans.

This poses another question; why not buy back these homes and work with the veteran? The VA could refinance the VA mortgage at the current appraised value with the current rate of interest being that which is now offered on VA acquired properties. There should be no additional cost to the veteran. Why can't the lender advise the VA on a timely basis when a mortgage payment is delinquent? One would think that VA Counseling should be initiated when the mortgage payment is thirty days past due and not months later when the VA is finally notified.

Madam Chairwoman, if you will notice the attachment that was provided by the Loan Guaranty Division at the VA Regional Office, Houston, Texas, for FYTD 1987, you will note that only 14 refunding actions were completed by the Veterans Administration. We feel that this is an unacceptable figure compared with the personal contacts made with the Veteran Borrower by Loan Servicing Counselors. Also please note, the 4,350 personal contacts with the Borrower, compared with the number of defaults that were pending which were 17,902. This is totally unacceptable.

In discussing this matter with the officials at the VA Regional Office, we found there was a total of thirty-nine (39) people working in Loan Service and Claims which provide this service. Out of these thirty-nine (39) people, seven individuals are primarily responsible for counseling on delinquent GI loans. How can seven (7) people properly counsel 17,902 individuals?

Cont./Page 3

Madam Chairwoman, the DAV National Service Office in Houston, Texas has represented many veterans concerning waiver or compromises of the Loan Guaranty debts. Many of these debts are created through no fault of the veteran. For instance, in the Houston area, there have been many homes sold by veterans on assumptions because this is the only way they can sell their homes. In some instances, the veterans have been out of these homes for years and have moved to areas seeking employment due to the poor economic situation in Texas. These veterans should be entitled to an automatic release of liability at the time the veteran transfers his loan to another individual.

Your amendment in Section 11 of H.R. 2672 would greatly assist these veterans and reduce the burden placed upon the veteran. In most cases, because of the size of these tremendous debts, the veterans will take these debts to the grave.

Also, in counseling with certain veterans in the Houston area, there is a growing concern of the reduced prices of VA acquired properties sold at auction sales. Some veterans we have talked to feel this procedure may be setting a trend of market values in certain areas. This poses a question; What happens to a veteran who owns a home in a certain neighborhood with a $60,000 mortgage and is trying to sell his property where homes have been sold at VA auction or other procedures at say forty cents on the dollar?

Also of concern is the length of time it takes before foreclosure action is finalized. During this time frame, there are some homes that are vandalized to the point where there is damage in the thousands of dollars. Here again, the veteran is still responsible for the abandoned property even though he had to move, not by choice but necessity, in order to obtain a job elsewhere and provide for his family.

In conclusion, we have just briefly touched on some of the areas of concern. We of the DAV know that the decisions that will be made by this Committee will directly affect the future of the VA's Home Loan Guaranty Program. However, we are confident that you, and the members of this Committee will take the appropriate action necessary to insure that our Nation's veterans will continue to have the benefit of a well managed and financially sound VA Home Loan Guaranty Program.

This concludes our statement, Madam Chairwoman. Again, I wish to thank you and the members of this Committee for allowing us the time and opportunity to express the DAV's views on these important issues.

Loan Guaranty Division
VA Regional Office
Houston, Texas
FYTD 87

Loan Servicing

	No. Defaults Reported	No. Defaults Pending	Personal Contacts with Borrower	Refunding Completed
October	1,258	13,990	177	1
November	1,164	14,163	163	1
December	917	13,930	197	0
January	1,657	14,745	203	1
February	2,240	16,043	660	0
March	2,726	17,372	1,193	1
April	1,395	17,540	780	3
May	852	17,051	736	3
June	1,410	17,092	241	4
FYTD TOTAL	13,619	17,902	4,350	14*

*No. of refuding cases in process: 40

Property Management

	No. of Acquired Properties	No. of Sold Properties	No. Properties In Title	No. Properties Pending Title	No. Properties In Inventory
October	317	215	4,674	1,536	6,210
November	209	265	4,616	1,520	6,136
December	275	334	4,552	1,471	6,023
January	224	266	4,508	1,631	6,139
February	425	318	4,620	1,724	6,344
March	483	289	4,817	1,856	6,673
April	320	361	4,779	2,231	7,010
May	316	301	4,797	2,450	7,247
June	479	531	4,749	3,077	7,826
FYTD TOTAL	3,048	2,880	4,749	3,077	7,826

(As of June 30, 1987)

STATEMENT OF

JOSE A. VILLARREAL

Department Service Officer

THE AMERICAN LEGION

DEPARTMENT OF TEXAS

before the

SUBCOMMITTEE on HOUSING and MEMORIAL AFFAIRS

on the

VETERANS ADMINISTRATION HOME LOAN GUARANTY PROGRAM

in the

STATE OF TEXAS

July 31, 1987

Madam Chairwoman and distinguished members of the Subcommittee:

The American Legion appreciates the opportunity to share with you our view on the Home Luan Guaranty Program in the State of Texas. I will restrict my comments to the issue of entitlement to waiver of a loan guaranty debt. I have studied fifteen (15) such cases at the Veterans Administration Regional Office in Houston, Texas, in an attempt to shed some light on a most difficult problem.

Forty-seven (47) percent, seven of the cases, in my modest study were denied by the Veterans Administration Regional Office in Houston, Texas, and none were granted. One of the cases in my study was granted, however, this was done in Muskogee, Oklahoma, before being transferred to Houston. This grant of waiver of debt out of Muskogee, Oklahoma aroused my curosity. I called Mr. Irvin Walker, Department Service Officer, The American Legion, VARO-Muskogee, Oklahoma, who advised me it was granted on the basis that the Notice of Foreclosure was sent to the wrong address. This resulted in the veteran not being afforded the right to take part in the foreclosure proceedings. I was surprised at learning this in view of the fact that here in Houston that same case would have been routinely denied.

Attached please find a copy of DVB Circular 20-86-14 entitled EFFECT OF U.S. vs WHITNEY on COLLECTION of LOAN GUARANTY DEBTS dated May 5, 1986. In this case a U. S. District Court held that the veteran must be made a party to the foreclosure proceedings and failure to do so defeated the loan holder's rights to collect a defeciency. The court held that the veteran was entitled to actual notice of the foreclosure proceedings. The VARO denied the waiver, in spite of my using this argument in four of my fifteen cases. Why does this argument suffice in one regional office and not in another?

In thirty-three (33) percent, five of fifteen, of my study-cases fraud was a factor presented either by the veteran or the Veterans Administration. Two of these cases were denied despite evidence of fraud on the part of the assumptor or mortgage company. One had already been indicted by the District Attorney's office and the other convicted. Also, in one of these cases, the veteran presented evidence that he was not notified of foreclosure proceedings. The VARO in Houston denies waivers in despite of extenuating circumstances.

In one out of my total fifteen (15) case studies, the veteran requested a Release of Liability. This was the case from Oklahoma. In ninty-three (93) percent, fourteen of fifteen, of my cases the veteran never sought a Release. In my conversations with them I have come to the conclusion that most of them knew nothing about that. The VA does not make much of an effort to inform the veteran population of this option. There is one pamphlet that is distributed mostly at the Regional Offices (VA Pamphlet 26-68-1) entitled SELLING YOUR GI HOME? which is good but not widely read or understood. I have attached a sample of this pamphlet. The VA has not made much of an effort to inform veterans of their responsibility in this regard. The American Legion seeks legislation from this Subcommittee to make it mandatory for the person assuming the loan to also assume complete responsibility for the loan in the event of foreclosure.

It takes a lot of the VA's time to process each of these Waiver Requests, Notice of Disagreements, and Appeals. I truly believe that the amount of money spent by the VA trying to collect these debts is much more than the debts themselves. This time could be much better utilized by VA personnel in supporting the Department of Veterans Benefits in accomplishing their mission. The average amount of debt in my random fifteen case study is $13,949.

My recommendation to the Subcommittee is that relief be provided for all concerned in the form of legislation that would grant a blanket amnesty to all VA Loan Guaranty debtors within a certain time frame. The savings would be enormous. Earlier in the history of our great country, a blanket amnesty was granted to those who refused induction into the armed forces during the Viet-Era. If they rated a blanket pardon, why not those who chose to serve.

Madam Chairwoman, that concludes my statement. I will be glad to answer any questions you may have.

Department of Veterans Benefits
Veterans Administration
Washington, D.C. 20420

DVB Circular 20-86-14

May 5, 1986

EFFECT OF U.S. V. WHITNEY ON COLLECTION OF LOAN GUARANTY DEBTS

1. Purpose. This circular provides instructions for Finance activities and Committees on Waivers and Compromises when a veteran with a loan guaranty indebtedness claims that he or she was not notified of default and foreclosure proceedings.

2. General. In the case of U.S. v. Whitney, 602 F. Supp. 722 (W.D.NY. 1985), a U.S. District Court held that a veteran who was indebted to the VA as a result of a default and foreclosure on his/her VA guaranteed loan must, under State foreclosure law, be made a party to the foreclosure proceedings. Failure to name the veteran defeated the loan holder's rights to collect a deficiency. Since the holder had no such rights, the VA consequently had no subrogation rights against the veteran. The court also ruled that the veteran was entitled to actual notice of the foreclosure proceedings. This notice must be reasonably calculated to apprise the veteran of the impending proceedings. Failure to provide notice is a possible deprivation of the veteran's rights under the Due Process Clause of the Fifth Amendment to the U.S. Constitution. Consequently, when notice is not provided, the VA is precluded from collecting the outstanding debt under the principle of indemnity. As a result of this court decision, DVB Circular 26-85-26, Notice to Original Veteran Borrower and Other Obligors of a Transferee's Default, was issued. This circular restated VA policy to provide notice of default and instructed field stations to ensure that reasonable efforts are made to notify all known obligors of a default prior to foreclosure of a GI loan. However, the circular did not provide field stations with guidelines on processing a case when a veteran claimed a lack of notification.

3. The following guidelines should be followed concerning loan guaranty debts:

a. In establishing a loan guaranty indebtedness, it is assumed that VA procedures have been followed concerning notice of default and subsequent foreclosure proceedings. A review of files is not necessary to determine whether reasonable efforts have been made to notify the veteran of default and foreclosure proceedings.

b. If a veteran makes a claim to either the Finance activity or Committee on Waivers and Compromises that he or she did not receive notification, the case should be referred immediately by the Finance activity to the Loan Guaranty Officer (LGO). The LGO will review the file to determine if notice has been provided or attempted and then forward a written report of his or her findings to the Finance activity.

LOCAL REPRODUCTION AUTHORIZED

c. If a waiver case is referred to the LGO, VA Form 4-8424a, Committee on Waivers and Compromises-Control Card, or the local automated system will be annotated in accordance with MP-4, part I, paragraph 8F.02a to indicate that the case has been disposed of by referral to the LGO. A referral to the LGO will not be used to initiate the 20 day suspension period discussed in paragraph 8F.08b to MP-4, part I. If the LGO refers the case back to the Finance activity and reports that the veteran has been properly notified, the case will be treated as a new waiver request.

d. If the LGO reports that the VA made reasonable efforts to provide notice, debt collection or consideration of the waiver request should proceed as normal.

e. If State law permits loan holders to collect a deficiency without providing the veteran with actual notice of the default and foreclosure proceedings, debt collection or waiver consideration may continue based upon subrogation if all State law requirements have been met. The General Counsel requested all District Counsels (D.C. Letter 02-86-14, March 20, 1986) to review their State laws and provide opinions to the Loan Guaranty and Finance Officers within their jurisdiction as to whether subrogation is possible where prior notice of the foreclosure has not been given to the veteran.

f. If the VA is relying solely upon indemnity for the establishment of the debt, and the LGO's report states that the VA made no attempt to notify the veteran and the District Counsel has determined that such failure precludes recovery under State law, collection efforts should cease against the veteran. The debt should be written off on the basis that the claim is legally without merit. However, if the Finance Officer questions the applicability of the District Counsel's opinion in a particular case where notice was not given for a specified cause, such as the inability to locate the veteran, the case should be referred immediately to the District Counsel for final resolution of the validity of the debt.

g. If the debt is written off, it will not be reported to the Internal Revenue Service as taxable income to the veteran because of the lack of legal merit of the claim. In cases such as this, a write-off is not normally reported as taxable income to the veteran anyway because of the involvement of a transferee.

4. MP-4, part I, chapters 5 and 8 will be amended accordingly.

R. J. VOGEL
Chief Benefits Director

Distribution: CO : RPC 2900
SS (047) FLD : DVBFS, 1 each (Reproduce and distribute as needed, plus Finance Activity and AR, 1 each)

TESTIMONY OF:

LARRY B. LITTON

Senior Vice President

NORTH AMERICAN MORTGAGE COMPANY

To Be Presented Before The Subcommittee on Housing

and Memorial Affairs

Committee on Veterans' Affairs

House of Representatives

INTRODUCTION

We are appreciative of the opportunity to present facts and case study material for objective consideration by your distinguished committee.

Concerns exist with regard to policies and procedures under which the Houston Veterans Administration operates or has operated. As a result of these policies and procedures, the Veteran has suffered substantially. The viability of the Home Loan Guaranty Program is in jeopardy as it currently exists, since lenders have sustained huge, unnecessary losses. Your committee must give strong consideration to the adverse impact that current Veterans Aministration activities have on Veterans and their families in relation to home ownership.

This testimony will support several significant points that prove to be adverse to the Veteran. What changes can occur within the Veterans Administration programs to afford the Veteran reasonable protection to continue to obtain housing under guaranteed Veterans Administration programs which are now in jeopardy? Regulatory changes are also necessary to assure that Veterans Administration policies do not result in the decline of property values.

DECLINE IN PROPERTY VALUES

Property values in the Houston Metropolitan area have declined in a dramatic fashion. Whenever an area experiences a decline in property values, obviously the central cause centers around supply and demand. The extent of the housing supply verses the demand determines the magnitude of the property value decline. A direct correlation exists between the two, i.e., number of housing units available and the decline in cost of housing. The Graphic Illustration marked Exhibit "A" pictorially reflects the correlation.

The decline in property value similarly relates to foreclosures as shown in Exhibit "B". Foreclosures increased to frightening numbers during the same period that property values have had their great fall.

Homeowners view their home purchase as an investment opportunity and do not have any rational reason to abandon their property when the property value exceeds the debt. Even if the family income reduced or diminished totally, a foreclosure should not occur if the property value exceeds the total debt since the property could be sold with the homeowner realizing some value for his equity in the home.

Baylor University recently completed a study that began about three (3) years ago of Adjustable Rate Mortgages vs. Fixed Rate Mortgages (Exhibit "C" attached is a draft copy of the study). This study concludes several interesting facts relating to property value. For the purpose of this testimony I have highlighted several conclusions pertaining to property value. Conclusions pertinent to this presentation are as follows:

> The value of the equity in the house drives the default decision and the value of the prepayment option in the mortgage contract drives the prepayment decision.
>
> As long as the value of the house is greater than the value of the mortgage, the equity is valuable and, therefore, choosing to default would be irrational. The dominant variable of consideration is the equity in the home. The payment obligation relative to income, typically measured by a P/I ratio, is not considered important.
>
> LTV is positive and moderately significant for fixed rate loan defaults, but insignificant for ARM defaults. Original equity is not particularly useful for anticipating defaults, especially with ARMs. Current equity is the better variable, as demonstrated by the highly significant house rate of return for both FRMs and ARMs.

.The Veterans Administration has chosen to dispose of foreclosed property in the Houston area by use of the auction system.

The Veterans Administration's procedures have added to the cause in the decline of property value to a greater degree than would have occurred by choosing to dispose of foreclosed properties through the real estate auction process. Homes have been auctioned at ridiculously low prices. Several auctions have occurred and one as recent as June, 1987. Two properties were actually given away in a drawing as an enticement for attending the auction (See Exhibit "D"). The latest auction results clearly tell the story -- 250 properties sold for $3 Million -- an average of $12,000 per home (See Exhibit "E"). This is clearly an injustice to the citizenry of Harris County, Texas and negatively impacts real estate values and the economy of our city.

HOUSING SUPPLY

New home construction in the Houston Metropolitan area occurred at an extremely rapid pace, i.e., 1978, 1979, 1980, 1981 and 1982 -- Exhibit "F".

Graphic Illustration marked Exhibit "G" reflects the employment picture for the Houston Metropolitan area and pictorially reveals the heavy number of job loss -- an over 200,000 reduction in jobs for the period 1st quarter, 1982 through the 2nd quarter of 1987. Graphic Illustration marked Exhibit "H" puts the employment situation together with the medium priced home for the same period. Clearly the trend line for employment and the average price of housing are similar and noteworthy.

The job loss created an inordinate number of foreclosures due to inability to pay. Great numbers of abandonments took place as many residents opted to leave the city. Other homeowners gave up home ownership and moved their families to rental units, which were much more affordable.

Each foreclosed unit added to the available housing inventory. Graphic Illustration marked Exhibit "I" shows the actual foreclosures for the period January, 1984 through August, 1987. This illustration also depicts the actual loans posted for foreclosure each month which is indicative that the potential for foreclosure each month was even greater than the actual occurrence. The fact that potential foreclosures each month was substantially reduced by the time foreclosure occurred indicates that both homeowners and lenders have been active in preventing even larger numbers of foreclosures from occurring. It should be noted that a substantial number of the properties posted for foreclosure as well as the actual foreclosures represent homes owned by Veterans and their families.

FORECLOSURES

Foreclosures of homes is a necessary action by lenders to protect their investment. Owners of properties that are foreclosed upon represent individuals from all walks of life, i.e., white collar, blue collar, professional, well educated, non-educated, virtually every ethnic background, etc. No one is immune to the foreclosure process if developments happen in one's life that cause a reduction/loss of income. However, in a viable real estate economy the homeowner can and will control the foreclosure to the extent of a foreclosure never becoming a reality by selling the home for the current value, extinguishing the mortgage debt and realization of the excess. In Houston, Texas, this luxury does not exist on most properties. The average home in Houston has depreciated in value approximately 30%; many single family homes have declined in value upwards to 50%, whereas condominiums have declined in value as much as 80% in some cases.

A foreclosure is a traumatic experience for the family involved. The pressure on the family during the financial crisis is far-reaching and has negative effects for the future years of the family.

The Veterans Administration has acted irresponsibly and actions have compounded a significant real estate depression that directly affects the large population of homeowners in the Houston Metropolitan area. Many homeowners have chosen to walk away from their homes and allow a foreclosure to occur simply because the debt owed on their property is far greater than the value. The Veterans Administration has helped create the wide variance of debt vs. value by choosing to dispose of foreclosed homes through the auction process, which virtually affects the entire real estate economy of the area. Of course, the homes in the same subdivision as the home auctioned for the low price is most affected, but that effect swells to adjoining subdivisions and the entire real estate comparable system.

VETERANS ADMINISTRATION PROCEDURES

There are several procedures that need a close review due to the ultimate impact on the Veteran.

1. Disposition of foreclosed homes through the auction process drives real estate values down.

2. Failure by the Veterans Administration to act timely (bidding instructions to the lender/servicer) increases cost to the lender and creates greater debt for the Veteran.

3. Slow payment of claims is expensive to the lender/servicer. The impact to the lender/servicer is severe and unjust.

4. Arbitrarily increasing the administrative fee used in calculation to determine the bid price or no specified bid decision has caused more Veterans Administration No Bid cases to occur, which has been expensive to the lender/servicer and ultimately adversely affects the Veteran.

5. Suggestive pressure to appraisers to arrive at an appraisal amount less than the actual value has effectively driven real estate values downward, created more "No Bid" situations and been expensive to the lender/servicer (See Exhibit "J"). Again, ultimate impact on the Veteran. It is interesting to note the lender/servicer is required to pay for the appraisal but does not receive a copy. Additionally, requests from the lender/servicer to be furnished a copy are denied.

6. The Veterans Administration has failed to make adequate and full use of other options available to homeowners under duress, i.e., deed in lieu, refunding, interest rate reduction, assisting in sales of properties at reduced amounts.

The fact that the Veterans Administration No Bid decision has been made in high numbers and, as a result thereof, the mortgage institutions have lost substantial amounts they had not anticipated or should not have lost creates a disservice to the Veteran. The lending institutions are more and more hesitant to continue with loan programs guaranteed by the Veterans Administration. As pointed out previously, the Veterans Administration arbitrarily used a 15% administrative fee (when the National Veterans Administration standard had been a 10.5% fee) and used appraisal amounts which were less than an appraisal would have shown had an objective approach been used. Had the Veterans Administration advocated a more solid appraisal process consistent with real estate standards and had the Veterans Administration used a 10.5% administrative fee, the number of Veterans Administration No Bid cases would have been reduced substantially. Also, the Veterans Administration has failed to act promptly in making foreclosure decisions, thus allowing a foreclosure to be delayed, which drives the total debt upward with additional costs and interest carry and also impacts the Veterans Administration No Bid decision to the extent that the number of Veterans Administration No Bid situations have increased.

Exhibit "K", Testimony of John H. Luke, Associate Director Resources, Community, and Economic Development Division, supports several issues raised in my presentation, i.e., arbitrary increases in administrative fees, auction process to dispose of foreclosed properties, failure to offer alternatives to foreclosures, failure to offer borrower counseling, inadequate staffing levels, increased debt to the Veteran of approximately 22%, and, during a two-week period studied, lenders were left with 27% more properties than if the correct policies and procedures had been followed in the calculation process. Mr. Luke's report clearly reflects activities in the Veterans Administration that work to the detriment of the Home Loan Guaranty Program.

PROBLEMS CREATED FOR THE VETERAN

1. The Veteran often is forced into foreclosure with other members of the population as he has a greatly reduced value of his home as a result of auctions and other Veterans Administration policies and procedures.

2. The option of selling the real estate to satisfy the debt becomes mute since the property is worth substantially less than the debt.

3. The Veteran is subject to greater deficiency amounts (difference between property value and total debt) when a foreclosure occurs.

4. The Deficit Reduction Act of 1984 requires the lender to report to the I.R.S. the difference between the debt and the bid price at foreclosure. After the lender subtracts the loan guaranty payment (in a Veterans Administration No Bid case), the Veteran has a tax liability which may not have occurred had the Veterans Administration used a more sound system of determining value.

CONCLUSION

The primary objective of the Veterans Administration Guaranteed Loan Program is to provide housing opportunities to the Veteran greater than one would obtain through other programs. The Veteran has the risk of the lending institution becoming non-supportive of the Veterans Administration Home Loan Guaranty Program due to the substantial losses they incur as a result of the unrealistic position of the Veterans Administration on appraisals, improper calculations of foreclosure bid prices, and delays in the Veterans Administration offices.

We should look at some characteristics of individual Veterans where the Veterans Administration No Bids have occurred. The information following is actual data taken at random from files of Veterans that had properties foreclosed upon from loan applications of Veteran borrowers of North American Mortgage Company:

1. 51 year old Veteran
   Married
   0 Children
   Base Income: $24,492
   School Teacher

   Foreclosure was the result of mortgagor's retirement.

2. 43 year old Veteran
   Married
   0 Children
   Base Income: $24,000
   Sheet Metal Worker

   Foreclosure occurred as a result of a reduction in income.

3. 41 year old Veteran
   Married
   Children ages 15, 13, 13 & 11
   Base Income: $32,556
   Chemical Operator

   Foreclosure occurred as a result of a reduction in income.

4. 43 year old Veteran
   Married
   Children ages: 20, 18, 14
   Base Income: $30,000
   Auto Sales Manager

   Foreclosure occurred as a result of an illness and substantial reduction in income.

These individuals served our country. They are real people that experienced a problem that resulted in a foreclosure. These Veterans did not have the opportunity to sell their home and recover equity due to a depressed real estate economy.

Although the Veterans Administration could have made available to these Veterans programs to ease the foreclosure process, or even prevent the foreclosure, the Veterans Administration has chosen to not make these programs available. As a result of the foreclosure process, the Veteran has a greater deficiency and must live with the stigmas caused by the foreclosure.

RECOMMENDATION

We strongly encourage your committee to consider the Veteran and the impact the policies and procedures of the Veterans Administration have on the Veteran and his family. It cannot be overlooked that the real estate depression that has occurred in Houston, Harris County, Texas in the 1980's could happen in other areas of our country. We can intelligently surmise that no one geographic area is immune from the problems we have encountered in Houston, Texas, i.e., unemployment, decline in property value, high numbers of foreclosures, oversupply of housing units, etc.

The Veterans Administration must open all doors to prevent foreclosures. To make full use of the programs when it makes sense, negotiate deeds in lieu of foreclosure, refunding, interest rate reduction, and negotiated sales of properties at reduced amounts are viable alternatives in the right situation.

The lender/servicer cannot be ignored in this sensitive review. There must be some incentive for the lender/servicer to continue with guaranty loans to Veterans under programs guaranteed by the Veterans Administration Home Loan Guaranty Program. Lender/servicers cannot operate profitably and participate in Veterans Administration Home Loan Programs with the current policies and procedures in place.

Positive action needs to occur immediately to:

1. Eliminate the auction system for disposition of real estate taken back through foreclosure.

2. Timely claim payments must be paid to lender/servicer.

3. Veterans Administration must act timely with bid instructions to the lender.

4. Veterans Administration must follow prudent practices in obtaining appraisals.

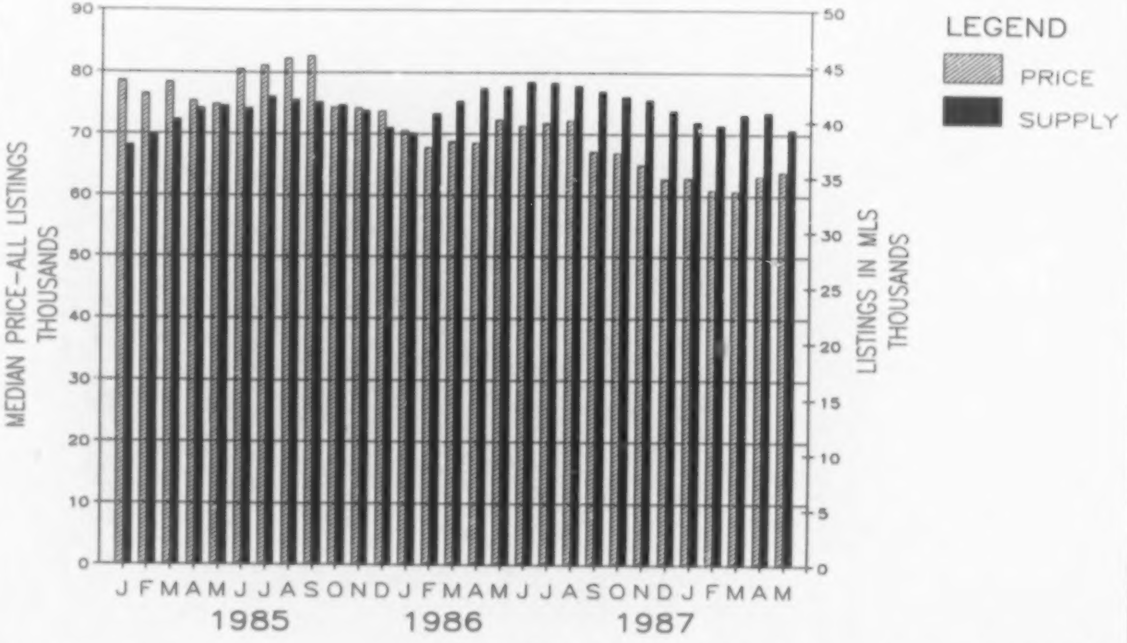
5. Alternatives to the "No Bid" action must be considered by Veterans Administration. We suggest eliminating the "No Specified Bid" for Houston and other real estate depressed areas for at least a two-year period. Since management of foreclosed properties seems to be overwhelming for the Veterans Administration, a special program during the 24-month period could be developed for properties that would normally meet the "No Specified Bid" criterion that would mandate that the lender/servicer manage these properties for the Veterans Administration for this period of time. The lender/servicer would be responsible to list these properties and negotiate sales at realistic market prices. This program would not apply to Veterans Administration properties acquired where a specified bid price is provided.

6. Lenders should not be penalized on foreclosure claims for delays by the Veterans Administration.

7. The Veterans Administration must have an adequate staff to deal with the work volume at any given time in order that alternatives to foreclosure may be put to full use. Borrower counseling should resume in every case.

In 1986 there occurred 7,217 real estate transactions to Veterans in Harris County, Texas (See Exhibit "L"). This statistic clearly shows activity in the Veteran population of Harris County. Loans to Veterans are in jeopardy unless some immediate modifications to Veterans Administration programs occur to minimize the financial risk to lenders/servicers as described herein.

EXHIBIT A
HOUSING SUPPLY/PROPERTY VALUE COMPARISON



SOURCE: H.B.O.R.

AS SUPPLY INCREASES PRICE DECREASES

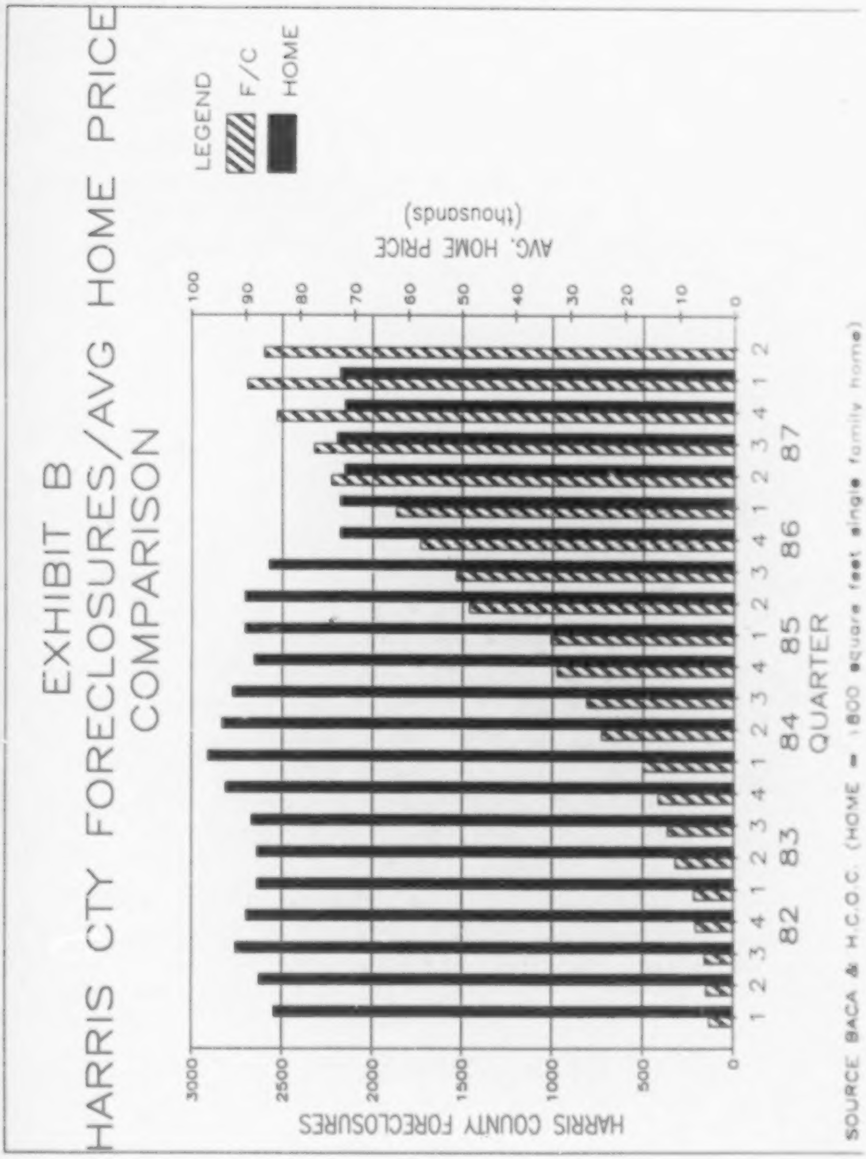


EXHIBIT B

HARRIS CTY FORECLOSURES/AVG HOME PRICE COMPARISON

SOURCE BACA & H.C.O.C. (HOME = 1800 square feet single family home)

EXHIBIT "C"

Final Draft
Revision Copy

Adjustable Rate Mortgage Termination Experience: Default and Prepayment

by

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I. Introduction

The Depository Institutions and Monetary Decontrol Act of 1980 amplified the competition for depository funds between financial institutions and the rapidly growing money market funds. As deregulation set it and interest rates spiraled, lenders moved to compensate themselves for the new burden of decontrol induced interest rate risk. Interest rates on the traditional long term fixed rate mortgage (FRM) reached levels unparalleled in over a generation of borrowers.

By 19 high mortgage rates and inflated house prices raised the entry barrier to homeownership beyond the reach of percent of all Americans. A solution emerged with the introduction of Alternative Mortgage Instruments (AMIs). AMIs were either of a fixed or variable rate variety. The fixed rate variety typically reduced the initial cash flow burden to the borrower by contractually deferring a portion of the payment schedule into the future. Variable rate AMIs typically lowered the initial contract rate in exchange for a shifting of the interest rate risk from the lender to the borrower. In subsequent periods the note rate was renegotiated according to prescribed criteria.

Graduated Payment Mortgages (GPMs) with negative amortization became the common instrument for deferring payments, and adjustable rate mortgages (ARMs) became the common instrument for shifting interest rate risk. With both, the potential for higher default and prepayment risk required lenders to reassess their underwriting guidelines and valuation methodologies which had been instituted when the traditional FRM dominated the market. years of [illegible]

This study utilizes a choice-based sampling procedure and a universal logit model to empirically analyze the determinants of default and prepayment on ARMs vis a vis the determinants of default and prepayment on FRMs. The observed repayment choices occurred during a period of volatile interest rates and in a geographic location with volatile and falling house prices. The data is not grouped or aggregated in anyway. Previous studies, [see Von Furstenburg (1969), Vandell (1978), and Campbell and Dietrich (1983)], have aggregated the data to form mortgage cohorts for explaining regional variations in mortgage default. By keeping the data disaggregated, we focus more directly on the household specific costs and choices of default and prepayment.

The study examines ARMs, rather than GPMs, because they became the dominant AMIs in the mortgage industry. However, the data set is sufficiently rich with GPMs, negatively amortizing ARMs and FRMs, and buydown ARMs and FRMs to allow analysis of the GPM features.

We present our analysis and findings in the following order. the theoretical model is discussed in section II. The data and and estimation procedure ~~is~~ are discussed in section III. The results are presented in Section IV with policy issues and concluding remarks in Section V.

II. The Model

Following a logic similar to Campbell and Dietrich (1983), we propose that borrowers select, at each scheduled payment date, an optimal mortgage repayment pattern from a mutually exclusive set of three choices: maintain current scheduled payments, prepay the principal balance outstanding, or default.[1] The borrower's decision follows a strict utility interpretation: its each household chooses the alternative that maximizes their [illegible] expected utility in each period as measured (indirectly) by the costs and benefits of the alternative repayment choices. Expected Utility is therefore a function of attributes related to either the borrower, the mortgage, the property, or the economic environment. The indirect utility function is stochastic because there are unobservable factors that influence the homeowner's decision.

Utililizing a Universal Logit Model, we can allow the same attributes to affect each [illegible] choice, but with different parameters (utility weights) across choices. The probability of the nth household choosing alternative i, given attributes Z_n, $p_n(i|Z_n)$, is then:

$$p_n(i, Z_n) = \frac{e^{\beta_i Z_n}}{1 + \sum_j e^{\beta_j Z_n}}$$

where:
i, j = default, prepay
$n \in \{N\}$
N = population

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[1] We treat delinquency as a subcategory of current.

The necessary assumption of independence of irrelevant alternatives holds very well because the choices facing each homeowner - default, prepayment or remaining current - cannot be considered close substitutes.

Default:

Certain attributes (with varying degrees of statistical significance) are well documented as being consistently correlated with FRM default: initial loan-to-value ratio (LTV), payment burden-to-income ratio (P/I), mortgage age, house age, borrower's age, tenure on the job, and unemployment rates.[2] With the development of the option pricing model and its applications, the relevance of some of these variables to a rational default response appears questionable. Foster and Van Order (1984) have empirically demonstrated the explanatory power of simply using the mortgage value and the house value in an option based approach.

We too, propose that the cost/benefit analysis driving each homeowner's repayment decision is based on the value of the options maintained in the house and the mortgage contract: the value of the equity stake in the house drives the default decision and the value of the prepayment option in the mortgage contract drives the prepayment decision.

The homeowner's equity position is similar to that of a firm's shareholder: a call option on an underlying asset, which in this case the house. Because the mortgage is collateralized by the property only, the homeowner also has the option to default without fear of recourse, the equivalent of a put option. The exercise of either option is complicated because the homeowner, unlike the shareholder, has (virtually) complete control over the flow of housing services - the equivalent of a firm being able to pay a liquidating dividend without regard for bondholder interests.[3]

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[2] See Swan (1982) for a review of the literature.

As long as the value of the house is greater than the value of the mortgage, the call (equity) is valuable; then and choosing to default would be irrational. If the house value falls and approaches the mortgage value the default option becomes more valuable; however, but its exercise remains uncertain. Because of the possibility of future house price increases, an incentive exists to keep the call alive by maintaining current status.

Whether a household chooses to default or remain current must be determined by comparing the value of the respective option to the cost of exercising it. The call requires a current mortgage payment, even as if house prices fall, to keep alive the possibility of future gains should prices once again rise. Default requires the explicit costs of moving as well as a host of borrower specific transaction costs.[4] Choosing default results in the recovery of negative equity [illegible] and any rents that can be extracted during the interim delinquency period.[5]

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[3] See Mayer and Smith (1981).

[4] Cunningham and Hendershott (1984) examine the borrower specific moving costs and estimate the effect of these costs on the price of default insurance.

In summary, the nth household's indirect utility function is maximized in period t + 1 if default is chosen when the gains from default exceed the costs of default:

$$\text{Min}\ [M_t^n - H_t,\ M_0 + P_t - H_t] + R_t^n > C_t^n \qquad (1)$$

where:

M_t^n = mortgage value to the nth household.[6]

H_t = House value.

M_0 = Principal outstanding plus accrued interest.

P_t = Closing costs incurred from refinancing.

R_t = rents extracted during the delinquency period, including free living costs, forgone maintenance costs, and moral hazard.

C_t^n = the nth household's expected transaction costs of moving, including psychic costs, explicit moving costs, forced renting and tax advantages of homeownership lost.

Our cost/benefit analysis for default is driven by the six variables: M_t^n, M_0, H_t, P_t R_t, and C_t^n. If an attribute is expected to contribute to default, it must affect the decision through one of these variables. From an option perspective, the dominant variable of consideration is the equity in the home, typically measured by a LTV ratio. The payment obligation relative to income, typically measured by a P/I ratio, is not considered important. If positive equity exits, a severe payment constraint should not result in default because the appropriate wealth maximization response is to sell the house.

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[5] By imposing delinquency upon the lender, the borrower can 1) increase the mortgage price at which the house is "put" to the lender, 2) gain time to live rent free, and 3) abandon maintenance expenditures, even to the extent of committing moral hazard against the lender.

[6] The mortgage value, like moving costs, is borrower specific because the mortgage is not marketable (the majority of the sampled mortgages are not assumable). Therefore, the discounting period used to value the mortgage is determined by the borrower's expected time to maturity for keeping the mortgage.

The explanatory power of the equity component in (1) can be ~~decomposed~~ Partitioned into the impact of the original equity (which is used for underwriting purposes), the impact of a change in the value of the mortgage (which is borrower specific), and the impact of a change in the value of the house. Original equity, as measured by the LTV which at date of origination, should be positively related to default only if the original degree of leverage risk is a good proxy for the future used? level of leverage. The results should be the same for both FRMs and ARMs.

The change in the mortgage value is proxied by the change in mortgage rates relative to the note rate $(r_t - r_0)/r_0$. If rates have risen since [illegible] origination, then the resulting decline in an FRMs value increases current household equity and should be negatively related to default. If rates fall, the mortgage value does not increase, because the borrower can refinance the outstanding balance for the closing costs of a new mortgage (including points, prepayment penalties, appraisal fees, attorney fees, etc.). By choosing default, the borrower saves only the costs of refinancing.[7] Points are used to proxy closing costs and should be directly related to default.

For an ARM, a change in market rates will trigger a change in the note rate, and keep household equity static. The spread between the market rates and the initial contract rates of an ARM should have an insignificant effect on default.

For an FRM, the mortgage gains from rising interest rates will be nullified by a household expecting to move in the near future. Their discount period for valuing the payment obligations is short, which limits the divergence of mortgage value from par.[8] Using the historical tenure durations of each household as a proxy for future movement patterns, we expect FRM default to be inversely related to past tenure duration. For ARMs, tenure duration should be insignificant, because no mortgage gains can occur to discount, regardless of the expected duration period.

Mortgage value is also be affected by the introduction of a buydown feature. This practice became particularly prevalent in the early 1980's as interest rates and house prices rose in tandem. Without any standards for establishing a buydown's depth or term to maturity, magnitudes varied significantly across instruments and lenders. We model the depth of the buydown as the relative difference between the contract rate and the initial effective rate $(r_0 - r_e)/r_0$. The term is simply the number of years until payment obligations become a function of the contract rate. Because default would cause the borrower to forfeit a below market rate of interest, we expect both the buydown's magnitude and term to be inversely related to default.

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[7] If rates have fallen, the difference of $(M_t^n - (M_0 + P_t))$ can be captured by the borrower from refinancing. However, this is a prepayment gain and should not be considered a default gain.

[8] Whether a household expects to move in the near or distant future during a falling interest rate environment is irrelevant to the default decision; they would refinance if they did not move.

Previous studies have also indicated a strong non-linear relationship between mortgage age and default. An option perspective provides insight into this phenomenon. As noted by Buser and Hendershott (1984), the call (prepayment) feature of an FRM results in an asymmetric distribution of its value across interest rates. The expected value will be fixed initially at par and can only diminish over time from amortization and rising interest rates. Falling interest rates do not increase value because of the prepayment option. Therefore, the probability of default can increase in the initial years, but should decrease at an increasing rate in subsequent years. The ARM, in contrast, has a symmetric (almost uniform) value distribution across interest rates.[9] As a result, the age of an ARM should be linearly related to default for a much longer time period, until amortization becomes significant.

begins ?

which

The final feature of a mortgage, that is also a recent phenomenon, is the possibility of negative amortization. FRMs with a graduated payment schedule, and ARMs with ~~a~~ payment cap restriction, have the potential for negative amortization. Because negative amortization increases the value of the mortgage and decreases property equity, default should be positively related.

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[9] A more rigorous analysis of the value distribution of ARMs must consider the impact of adjustment frequencies, period caps, and lifetime caps. In general, though, we suspect the household perceives the value of an ARM to be essentially fixed.

Changes in house values also affect property equity. Campbell and Dietrich (1983) used a price level adjusted LTV to measure the impact of changing property values. We prefer to separate the explanatory value of the original LTV ratio, which is the underwriter's traditional tool for assessing default risk, from the impact of house price changes. Therefore, we introduce the percentage change in house prices from origination date to observation date, $(H_t - H_0)/H_0$, as a separate variable. Default should be inversely related.

Moving costs, (C_t^n), deter default but are borrower specific and unobservable. We test the following proxies as substitutes for moving costs: single versus joint income source (dummy variable for single equals zero), primary borrower's age, years lived at current address, years lived at previous address, and tenure at current address (dummy variable for owning equals zero). We propose that a joint income source, while potentially more volatile, provides a more certain minimum inflow of funds. Therefore, the loss of a job would not mean an imminent move for the household. Moving costs are higher for households that do not have to move; therefore, we hypothesize an inverse relationship between default and joint sources of income.

The remaining proxies, except for tenure status, should also be directly related to moving costs and inversely related to default. A previous tenure status of renting proxies for low moving costs. We presume the household would suffer less loss if forced to return to recent tenure posture ~~that was~~ of renting. Default should be more probable.

Prior studies, [for example, Campbell and Dietrich (1983)], have also included unemployment rates as explanatory variables for default. From an option perspective, there is no direct linkage between default and unemployment. Indirectly, unemployment might operate on either the house value or moving costs. After an indeterminate lag period, house values may fall and default rates rise with increasing unemployment rates. We might also expect moving costs to fall with unemployment, because people have to move anyway to find another job. Without measures of house value and moving costs, Default should be positively linked to default under either hypothesis. Because we capture both these variables in our model, unemployment should be insignificant or highly correlated to the other variables.

Prepayment:

If the gains from default are not greater than the costs, then the homeowner faces a second decision - to make the current mortgage payment or prepay.[10] Indirect utility is maximized when prepayment occurs in period t + 1 if the gains from refinancing or from moving to another location exceed the costs of refinancing and/or moving:

$$M_t^n - M_0 + W_{t+1}^m - W_t^l > P_t + C_t^n \qquad (2)$$

where:

W_t^l = Wealth at current location

W_{t+1}^m = Wealth at new location.

Prepayment can occur for three reasons. The first is refinancing a mortgage obligation that has risen in value as a result of falling interest rates, $((M_t^n - M_0) > 0)$. The second reason is a job related move. By transferring to a new location, the household's wealth increases sufficiently to offset the moving and refinancing costs, as well as possible losses that could result from rising interest rates, $((M_t^n - M_0) < 0)$.[11] The third reason for prepaying is a preferred change in housing. We model this preference change to be either the result of an increase in wealth (in which case households move "up"), or the cause of an increase in wealth. ([illegible] move "down") For example, if the relative payment obligation is too burdensome, households can choose to move "down", lowering their housing consumption requirements, and presumably becoming better off.

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[10] Three studies [Campbell and Dietrich (1983), Lea and Zorn (1985), and Peters, Pinkus, and Askin (1984)] have used default related variables to also study prepayment behavior.

[11] We assume regional variations in mortgage interest rates are insignificant.

The same variables used to explain default are tested in the prepayment model. However, the fundamental explanatory variable shifts from property equity to mortgage value and household wealth. As a result, the expected sign and statistical significance of some the variables differ from their default model case. We discuss below the variables expected to have different explanatory power or statistical significance.

For prepayment, the original loan-to-value proxies for nonhousing wealth. Prepayment should be inversely related, because households will delay new housing investments until their portfolios increase in value. The payment-to-income ratio measures the relative burden of the payment obligation. The higher the ratio, the greater the incentive to prepay and substitute a mortgage with a lower payment for the current mortgage. For ARMs this is particularly true, because a high payment burden has the potential of becoming even higher.

The years at the current and previous addresses should be positively related to prepayment, because they proxy for the expected term in the house. The longer a household is expected to live in the house, the greater the present value of refinancing and substituting lower payments for higher payments. In the case of an ARM, a household might be substituting uncertainty for certainty or lower interest caps for higher interest caps.

The non-linear impact of mortgage age will be the same for

FRM prepayment as for FRM default. For an ARM, however, the mortgage age variable should reflect the borrower's expectations about future interest rates. If rates are expected to fall, there is no incentive to refinance because the ARM rate will adjust down. If rates are expected to rise, then prepayment and refinancing is preferred. We do not proxy for expected interest rate movements. However, we know that rates fell during the latter period of this study, which should invoke a non-linear relationship to prepayment.

Negative amortization can be more costly for ARM borrowers than FRM borrowers. For a FRM with negative amortization, the increases to principal outstanding are borrowed at the initial note rate. If interest rates rise, the additional borrowing occurs at a below market rate, in which case negative amortization actually delays prepayment. If rates fall, refinancing occurs. For an ARM, increases in the principal balance will accrue interest at the adjusted note rate. If interest rates rise, the borrower will incur interest charges at a higher level than originally anticipated. If rates fall, the ARM rate adjusts down, and there is no incentive to prepay. Because of the exposure to potential interest charge increases, negative amortization should be positively related to prepayment for ARMs, and to a lesser extent for FRMs.

Positive housing returns increase the household's wealth. If the returns are substantial, households will want to diversify their gains into nonhousing investments or trade "up" for more housing. In either case, the rate of return from the house investment should be positively related to prepayment. We also utilize a second measure of wealth by introducing the household's net worth at date of application divided by the number of dependents. For the same reasons that housing returns should be positively related to prepayment, we expect net worth to be directly related.

Market points are used to proxy for the costs of refinancing. An increase in points should be inversely related to prepayment. We summarize the vector of independent variables and their hypothesized relationship to default and prepayment [direct (+), indirect (-), questionable (?), and insignificant (i)] as follows:

	PDFRM	PPFRM	PDARM	PPARM
OLTV	?	-	?	-
PTY	i	+	i	+
SPREAD	-	-	i	i
YRSCA	-	+	i	-
YRSPA	-	+	i	+
BDOWN	-	-	-	-
BDOWNT	-	-	-	-
MAGE	+	+	+	+
MAGESQ	-	-	+	-
NEGAM	+	+	+	+
HROR	-	+	-	+
POINTS	+	-	+	-
JINC	-	-	-	-
BAGE	-	-	-	-
RENT	+	+	+	+
UNEM	?	?	?	?
NWORTH	?	+	?	+

where,

PDFRM = probability of default for FRM
PPFRM = probability of prepayment for FRM
PDARM = probability of default for ARM
PPARM = probability of prepayment for ARM

OLTV = original loan-to-value ratio
PTI = payment-to-income ratio
SPREAD = $(r_t - r_0)/r_0$
YRSCA = years at current address at date of application
YRSPA = years at previous address at date of application
BDOWN = magnitude of buydown, $(r_0 - r_e)/r_0$
BDOWNT = term to maturity of buydown
MAGE = mortgage age
MAGESQ = mortgage age squared
NEGAM = negative amortization (0=no, 1=yes)
HROR = $(H_t - H_0)/H_0$
POINTS = market points at date of observation
JINC = joint source of income
BAGE = primary borrower's age
RENT = tenure status at date of application (0=own, 1=rent)
UNEM = unemployment rate
NWORTH = net worth per dependent

III. Data and Estimation Procedure

The data used in this study came from the origination files of a private mortgage banking firm homeofficed in Houston, Texas. Most of the loans (approximately 90 percent) were issued on property located in the Houston SMSA. The location is important because of the house price inflation that occurred there through 1982 followed by significant price deflation through 1985.

A choice-based sampling procedure (each alternative has a different frequency distribution in the sample than in the population) was utilized, because of the extremely low probabilities of a mortgagor choosing default. In this manner, we can enrich the data with default observations for statistical analysis. The mortgages were selected from three categories: 500 that defaulted between June of 1980 to December of 1985, 500 that prepaid during the same period, and 500 that were classified as current during the eighteen months prior to December 31, 1985.

The first ARM originations in the files and in the sample occurred in June 1980.[12] FRM originations dated back to as early as 1962.

Because the first ARM default occurred in July of 1982, the period used to observe termination experience was the 42 months prior to December 1985. A new subsample of current loans had to be created that would cover the 42 months and also represent the universe of loans. The 42 month period was subdivided into fourteen quarters, and the 1500 sampled loans were allocated to each quarter in which they were current. All loans, whether first sampled as a prepaid, defaulted, or current, were considered current in prior quarters if they had been originated as of that date. Thirty loans were then randomly selected from each quarter to comprise a new sample of 420 loans classified as current. This sample is choice-based also, and it represents every loan that could have been current during the period, even if it subsequently prepaid, defaulted, or remained current.

The estimation procedure utilized is maximum-likelihood with calculations based on the method of scoring. This assures consistent and efficient parameter estimates, as well as the usual applicability of t-statistics for judging parameter significance. The first order equations used to solve for the

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[12] Most of the ARMs in this sample were indexed to changes in the average contract rate of home mortgages as reported by the Federal Home Loan Bank Board. Many had periodic interest caps of one or two percent.

β's are:[13]

$$\sum_{n=1}^{N} (y_{nj} - p_{nj}(j, Z_n))Z_n = 0$$

where,

j = default, prepay

$$y_{nj} = \begin{cases} 1 \text{ if nth household chooses } j, \\ 0 \text{ otherwise} \end{cases}$$

Cosslett (1981) has shown that in a logit model with a full set of alternative-specific dummies, only parameter estimates for these dummies are affected by choice-based sampling proportions.[14]

After elimination of observations due to missing values, the data set contained 471 observations. The ARM set contained 221 observations (108 defaults, 43 prepaids, and 70 currents), and the FRM set contained 250 observations (73 defaults, 91 prepaids, and 86 currents).[15]

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[13] See Maddala (1983).

[14] The transformation necessary to correct for the parameter bias is:

$$\beta_{i0}' = \beta_{i0} - \ln(H_i/Q_i)$$

where,

i = default, prepay
β_{i0} = estimated intercept for alternative i
β_{i0}' = true intercept for alternative i
H_i = proportion of alternative i in sample
Q_i = proportion of alternative i in population

[15] To compute moment matrices, a missing value required all variables in the observation set to be eliminated.

IV. Results

Default:

The estimation results for FRMs appear in Table 1 and the results for ARMs appear in Table 2. The original LTV is positive and moderately significant for FRM default but insignificant for ARM default. This suggests that the original equity in the property is not particularly useful for anticipating default, especially with ARMs. Current equity is the better explanatory variable, as demonstrated by the highly significant house rate of return for both FRMs and ARMs.

The payment-to-income ratio is particularly interesting. The ratio has the wrong sign for FRMs and is insignificant for ARMs. While this is contrary to the findings of previous studies, it agrees with our hypothesis, which is based on an option interpretation. It is also important because of the significance placed on the payment-to-income ratio by standard underwriting procedures.

The spread between market interest rates and the original note is negative and highly significant for FRMs, but insignificant for ARMs. This agrees with our hypothesis that borrowers will not walk away from the gains provided by a low interest FRM. They also appear to recognize that such gains cannot be significant ~~on~~ an ARM.

The buydown magnitude has the correct sign, but is insignificant for both FRMs and ARMs. For ARMs the term of the

[illegible]

buydown has a positive sign, which is counter intuitive, and highly significant. We suspect this results from a unique ARM product issued by the firm, that had a long buydown/graduated payment feature with negative amortization. Notice the negative amortization variable was positive and significant for ARMs. After reviewing the correlation matrix, we omitted the buydown term and negative amortization for FRMs.

The mortgage age terms present two stories. For FRMs, the results are consistent with prior studies, a strongly non-linear relationship. For ARMs, both terms are insignificant, and the squared term is even positive. We hypothesized that because the value of an ARM is essentially fixed at par, these is no reason to expect default probabilities to diminish over time (from mortgage gains) as a result of expectations for rising interest rates. However, we had no reason to expect the signs to be insignificant.

Points, as expected, are positively related to default, although they are not very significant for ARMs. Income source (single or joint) was not significant for either instrument, but other proxies for moving costs were significant. Borrower's age in particular was significant, but the sign was positive. We did not expect older borrowers to be more likely to default. Could they be less concerned about the effect on future credit rating? Years at current address, years at previous address, and the tenure of the previous address were all significant for FRMs. Only the years at the current address was significant for ARMs.

Borrower specific moving costs appear to significantly affect default decisions.

The unemployment variable is included as a matter of interest because of its use in prior default studies; the option framework does not suggest a direct linkage. The negative sign is counter intuitive, but significant. We also used a six month lag and the results were insignificant. The net worth variable was included to explain prepayment, but resulted in a significantly positive sign for default. We wonder if this might be capturing some tax incentive to default?

Prepayment

The original LTV variable, which is positive and insignificant for default, is negative and significant for prepayment. This seems to confirm its role as a proxy for nonhousing wealth, and the expectation that households will delay changes in the housing investment until their investment portfolio increases in value.

The payment-to-income ratio which is insignificant for default, is notably significant for ARM prepayment and not for FRM prepayment. It appears households with ARMs are very sensitive to the relative payment burden of the ARM and the potential it has for becoming even more burdensome. They will more likely opt for refinancing than the FRM borrower.

The spread between market interest rates and the note rate is very important to FRM borrowers, but, as expected, relatively unimportant to ARM borrowers. ARMs with large buydowns were less likely to prepay, as expected. The length of the buydown period resulted in the same counter intuitive sign as for default on ARMs, reflecting the correlation to a negative amortization feature.

The mortgage age variables for FRMs generate the same non-linear relationship for prepayment as with default. For ARMs the prepayment relationship, unlike default, is also significantly non-linear. As hypothesized, we think this reflects borrower expectations for falling interest rates and their belief that the ARM rate will adjust down if the continue to hold it.

Points are positive and significant, which appears counter intuitive. However, after reviewing Freddie Mac's regional survey of lenders' rates and points, we noted that rates began a downward trend in August of 1982, while points actually rose from an average of 230 basis points in August of 1982 to a maximum of 310 basis points in May of 1985. Only then did points begin a downward trend. It appears that the gains available from refinancing in a falling interest rate environment, simply dominated the rising cost of refinancing.

All the proxies for borrower specific moving costs were insignificant with the exception of years at previous address on ARMs. We are not surprised by the insignificance of these variables, because prepayment, as discussed in section II, does not require moving in order for borrowers to gain.

The rate of return on the house appears to reflect borrowers' perceived wealth gains and an accompanying move to diversify or move "up." For the same reasons, the higher net worth variable on ARMs also correlates with higher prepayment.

V. Conclusion

This study focuses on the household specific choice of whether to terminate a ARM or FRM ~~mortgage~~ during adverse economic conditions - volatile interest rates and falling house values. Four points are particularly interesting. The first is the insignificance of the original loan-to-value ratio, payment-to-income ratio, and unemployment rate in explaing termination by default. This result agrees with the hypothesis drawn from an option based framework which suggests that only equity matters. Termination by prepayment, however, is driven by liquidity and portfolio rebalancing considerations. For this experience, the results show the original loan-to-value ratio and payment-to-income ratio to be highly significant.

A second point relates the experience of ARMs to that of FRMs. Two variables, which the literature and we confirm in our results to be highly correlated to FRM default, seasoning and interest rate movements, are insignificant to ARM default. FRM values are much more volatile than ARM values over interest rates and time, and borrowers consider these value changes when making a default decision. Because ARM values are essentially fixed over interest rates and time, the changes in house values is the only critical variable for the borrower to consider.

The third point is the importance of household specific costs in making the termination decision, particularly default. We can only proxy for these unobservable costs. It appears that the individual borrower's history of moving and tenure, when combined with age, contains useful information about the magnitude of these costs.

The fourth point is the sensitivity of ARM borrowers to the shift in interest rate risk from mortgagee to mortgagor. Relative payment burden and the risk of even greater payment burden are measured by the original loan-to-value ratio, payment-to-income ratio, and buydown magnitude. For ARM borrowers these variables were highly significant to the prepayment decision. For FRM borrowers only the original loan-to-value ratio was significant.

Table 1
FRM Regression Results
(t-ratios)

Variable	PDFRM	PPFRM
Constant	-5.244 (-4.43)	( )
OLTV ① used by underwriters ② Previous Studies	0.002 (0.63)	-0.010 (-2.05)
PTY ① used by underwriters ② Previous Studies	-0.018 (-1.51)	0.003 (0.26)
SPREAD ① MV. fixed duration ② MV. call [illegible]	-3.68 (-5.72)	-4.47 (-7.87)
YRSCA – MV. disc [illegible] calculated MV	-0.90 (-2.64)	0.019 (0.79)
YRSPA	-0.70 (-1.46)	-0.015 (-0.37)
BDOWN	-1.218 (-1.25)	-1.24 (-1.33)
BDOWNT	*	*
MAGE	0.048 (4.50)	0.027 (3.52)
MAGESQ	-0.0001 (-2.68)	-0.0002 (-3.97)
NEGAM	*	*
HROR	-0.998 (-2.21)	1.449 (3.68)
POINTS	1.018 (2.75)	0.997 (2.78)
UINC	-0.067 (-0.34)	0.056 (0.32)
BAGE	0.038 (3.61)	0.005 (0.56)

Pricing for non-housing wealth

Table 1 (cont.)

Variable	PDFRM	PPFRM
RENT [illegible]	0.565 (2.45)	0.055 (0.265)
UNEM mty C.I.	-0.316 not LOGGED (-4.38)	-0.046 (-0.710)
NWORTH pr. Def.	0.0000003 (1.04)	.0000002 (0.60)
X^2	1520.29	
degrees of freedom	244	
R^2	.997	
pseudo-R^2	.997	

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* These variables were omitted after reviewing the correlation matrix.

Table 2
ARM Regression Results
(t-ratios)

Variable	PDARM	PPARM
Constant	-6.298 (-4.27)	( )
OLTV	0.005 (1.48)	-0.044 (-4.72)
PTY	0.006 ✱ NOT SIGN. (0.35)	0.053 (3.04)
SPREAD	✱ NOT SIGN. -0.779 (-0.77)	-0.568 (-0.46)
YRSCA	-0.059 (-1.60)	-0.034 (-0.81)
YRSPA	-0.010 (-0.24)	0.067 (1.71)
BDOWN	-1.164 (-0.97)	-4.603 (-2.58)
BDOWNT	0.405 (3.51)	0.313 (2.16)
MAGE	0.025 (0.68)	0.206 (4.02)
MAGESQ	0.0004 (0.65)	-0.002 (-3.38)
NEGAM	1.040 (2.09)	0.718 (1.04)
HROR	-5.017 (-5.05)	1.096 (1.03)
POINTS	0.453 (1.09)	1.001 (1.79)
JINC	0.106 (0.45)	0.231 (0.81)
BAGE	0.043 (2.95)	0.006 (0.36)

uncertainty [illegible]

Table 2 (cont.)

Variable	PDARM	PPARM
RENT	0.216 (0.81)	-0.185 (-0.56)
UNEM	-0.153 (-1.93)	-0.104 (-1.100)
NWORTH	0.0000004 (2.17)	0.0000003 (1.67)
X^2	826.17	
degrees of freedom	203	
R^2	.976	
pseudo-R^2	1.12	

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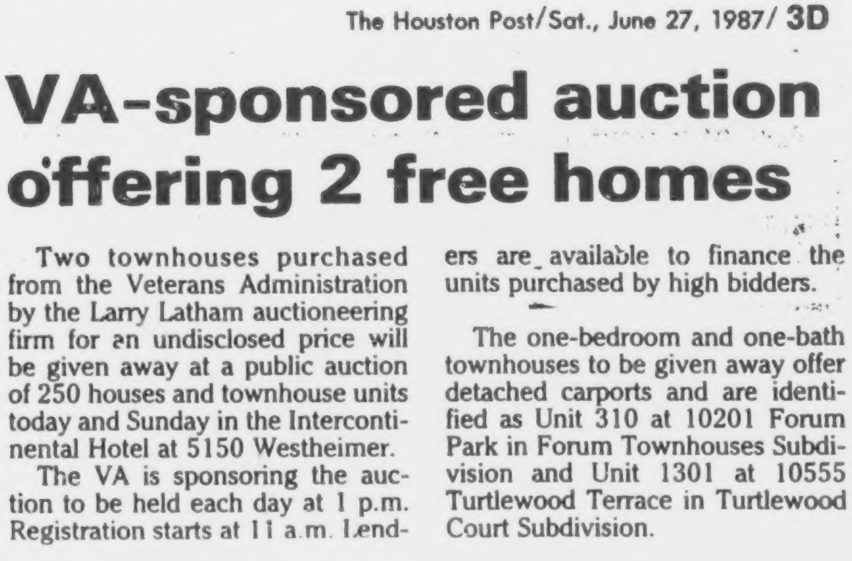
EXHIBIT "D"



The Houston Post/Sat., June 27, 1987/ 3D

VA-sponsored auction offering 2 free homes

Two townhouses purchased from the Veterans Administration by the Larry Latham auctioneering firm for an undisclosed price will be given away at a public auction of 250 houses and townhouse units today and Sunday in the Intercontinental Hotel at 5150 Westheimer.

The VA is sponsoring the auction to be held each day at 1 p.m. Registration starts at 11 a.m. Lenders are available to finance the units purchased by high bidders.

The one-bedroom and one-bath townhouses to be given away offer detached carports and are identified as Unit 310 at 10201 Forum Park in Forum Townhouses Subdivision and Unit 1301 at 10555 Turtlewood Terrace in Turtlewood Court Subdivision.

EXHIBIT "E"

8A /The Houston Post/Mon., June 29, 1987 ★

Woman walks away with condo — for free

By LESLIE LODDEKE
Post Reporter

WHITE:
"Excited"

A woman who was only window shopping at an auction Sunday was surprised when she ended up walking away with a whole house free of charge.

Well, it was really only a one-bedroom, one-bath condominium, but auctioneer Larry Latham, who gave it away, said the property once listed "in the mid-20s" so Kim White was thrilled to win it in a drawing at Hotel Inter-Continental in Houston.

"I'm very excited," she said at the conclusion of the two-day Veterans Administration auction, as a young man frantically tried to get her attention.

"I'll pay you $4,000 cash for it, and I haven't even seen the property," the young man told White, staring at her intently.

White stared back in initial disbelief, but finally rejected the offer.

"Four thousand, cash," he insisted, obviously hoping to transfix White with his mesmerizing gaze. "As is." But White held firm.

"I have one daughter attending Georgetown University (in Washington, D.C.) and another in high school," she explained, mentally adding up hefty college expenses for her two offspring.

White said her husband, Lou, occasionally attends auctions in hopes of finding reasonably priced real estate for rental properties, and had snagged two prime pieces in the past. He had to miss the VA auction Sunday, so he dispatched his wife as his delegate. But she didn't buy anything, and was amazed when her number was called at the end of the bidding.

"I've never won anything before," she said.

The condominium at 10555 Turtlewood Court was one of two properties owned by Larry Latham Auctioneers of Michigan which were offered as incentives for people to remain until the end of the bidding Saturday and Sunday.

Latham spokeswoman Sally Le Pla said winning bidders paid a total of $3 million for 250 pieces of residential property in a 70-mile radius around Houston during the auction. A comparison figure for the original list prices of the properties was not available.

Bids ranged from a low of $1,750 for a ramshackle 3-bedroom, 1-bath frame house at 1916 Lynnwood in Houston, to a high of $58,000 for a spiffy looking 4-bedroom, 2½-bath house at 13606 Tonnocky Drive, also in Houston.

VA loan guaranty officer Michael McReaken said the fast-paced action Sunday constituted the first VA auction in Houston this year, following two auctions in the city last year.

"The value is not too far off from where they sold the first time," said a satisfied McReaken. "It's holding up pretty good."

All were VA-owned houses which "at one time belonged to a veteran who couldn't keep up his payments, so the bank foreclosed" and the VA took over the property, he explained. The VA tried to sell the houses over a 12-18 month period but when they didn't move, they were offered at auction, he said.

"This will put more money in the Treasury so we can continue to give loans to other veterans," McReaken said.

Le Pla pronounced attendance good both days with 1,300 people Saturday and 1,000 Sunday. About half were investors, while the others were people looking for homes for themselves, she said. Many homes went for bids in the low range of $8,000-$9,000, and an average of 7-8 people bid on each property, she said.

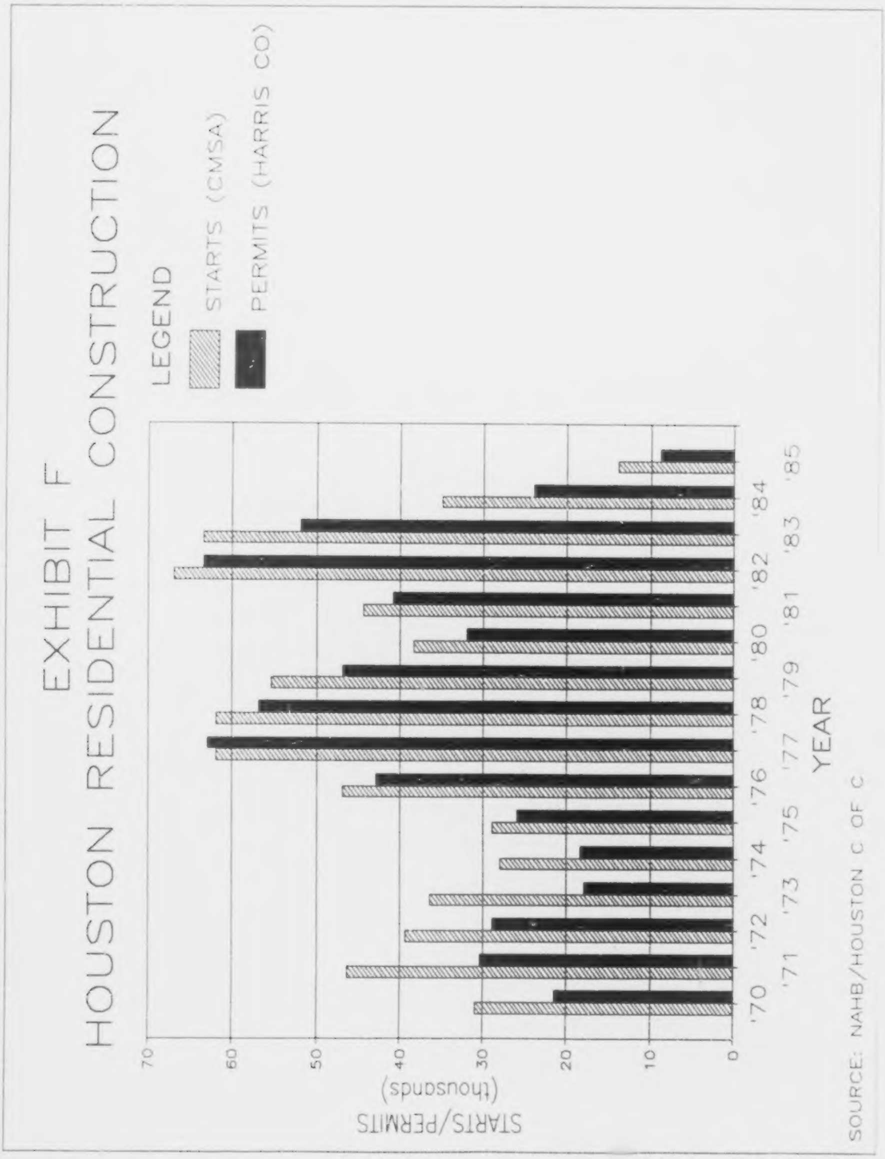


EXHIBIT F
HOUSTON RESIDENTIAL CONSTRUCTION

SOURCE: NAHB/HOUSTON C OF C

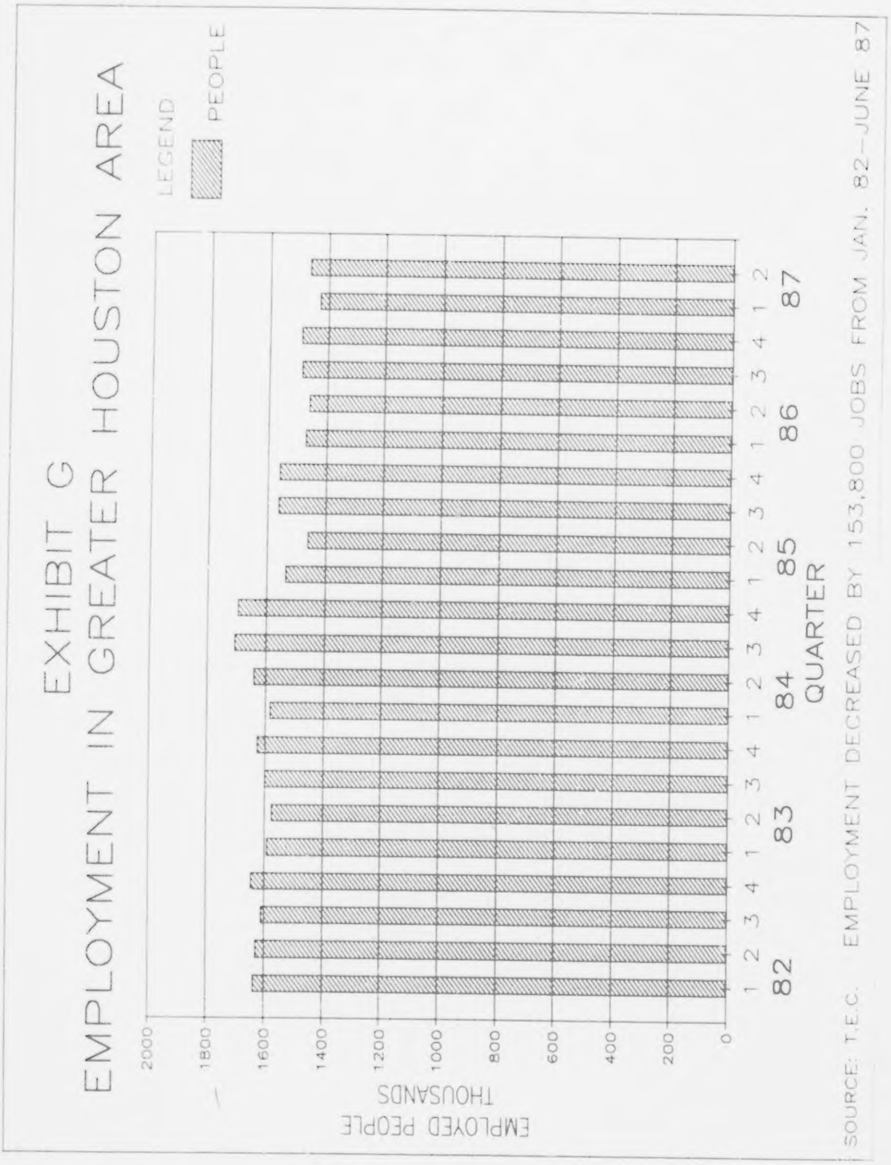
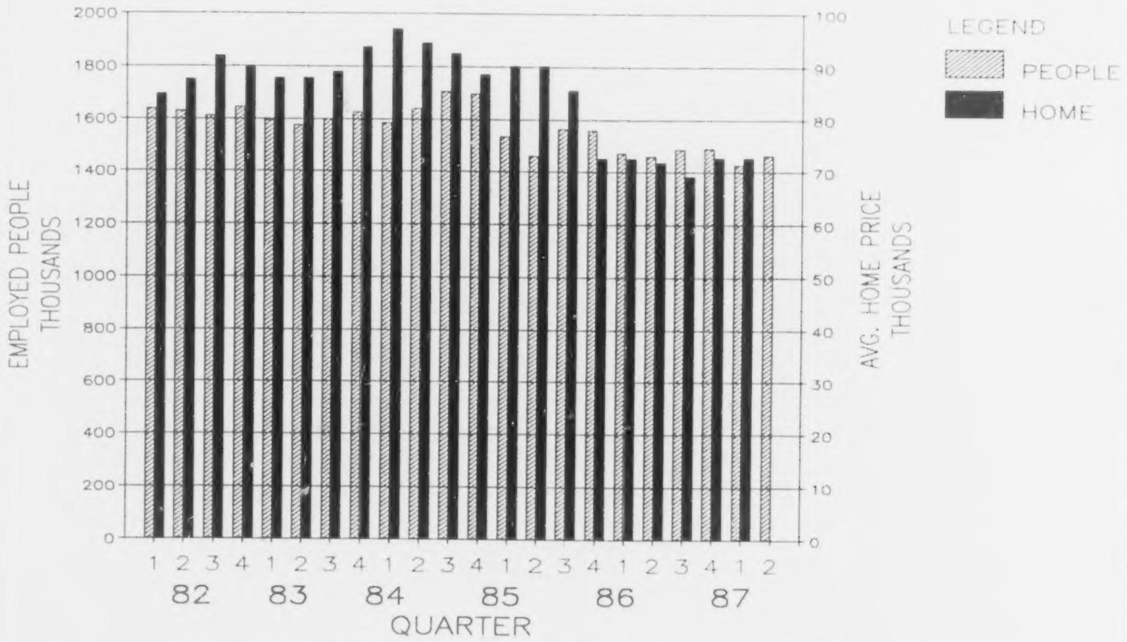


EXHIBIT G

EMPLOYMENT IN GREATER HOUSTON AREA

SOURCE: T.E.C. EMPLOYMENT DECREASED BY 153,800 JOBS FROM JAN. 82–JUNE 87

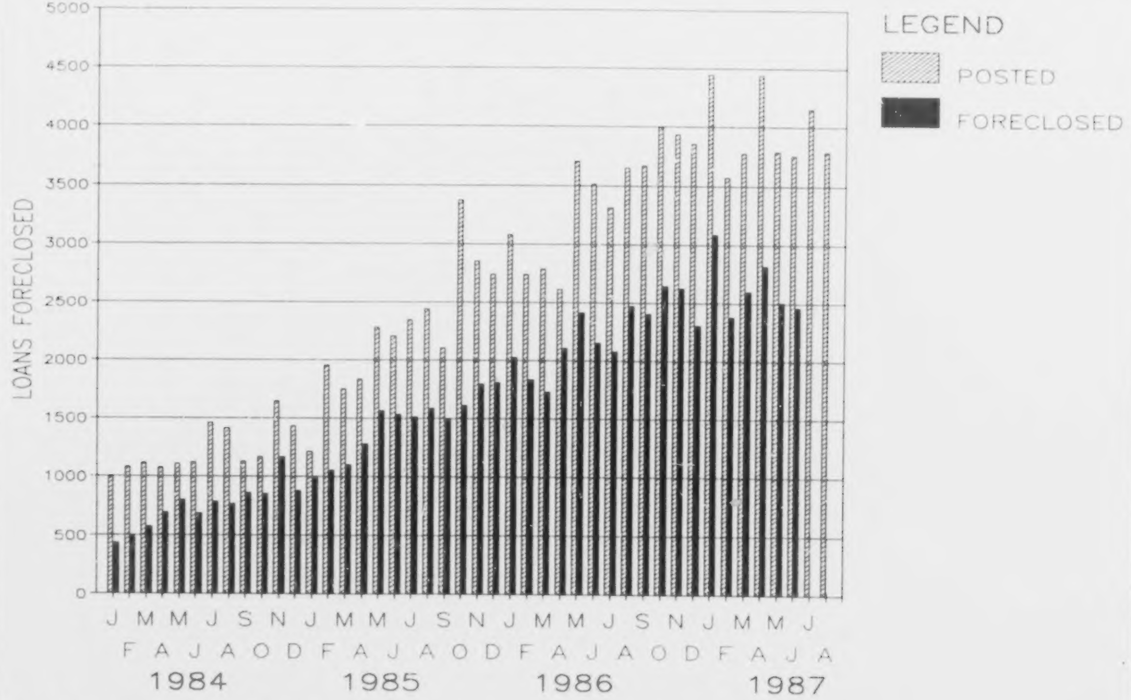
EXHIBIT H
EMPLOYMENT/AVERAGE PRICE OF HOUSING COMPARISON



SOURCE: H.B.O.R. & T.E.C.

EMPLOYMENT LEADS HOUSING PRICE

EXHIBIT I
HARRIS COUNTY POSTINGS & FORECLOSURES



SOURCE: BACA PUBLICATIONS

EXHIBIT "J"

Regional Office

2515 Murworth Drive
Houston TX 77054

Veterans
Administration

March 17, 1986

TO: All Fee Appraisers

In Reply Refer To: 362/26

SUBJ: Current Real Estate Market Conditions - Houston Regional Office

1. This VA Office currently owns over 5,000 residential properties throughout the South Texas Region. The greatest number is concentrated in the metropolitan areas of Houston, San Antonio, and the Valley. VA acquisitions by loan foreclosures are now exceeding our sales efforts by almost double. In other words, we are only able to sell half as many houses as we acquire. This economic condition has never before occurred on this massive scale in our regional area.

2. It is noteworthy that the regional economic conditions are causing this office's overall Property Management sales efforts to recover only 85 percent of its list prices. All list prices are firmly based upon the most current appraisal information available (YOUR LIQUIDATION APPRAISAL REPORT). This leads VA to conclude that our appraisal estimates ARE NOT fully considering all available sales data nor the extremely large number of properties that are currently listed on the market but remain unsold due to the oversupply of housing. In the Greater Houston area alone, more than 150,000 houses are currently listed for sale by owners, builders, and brokers through MLS, Bank REO's, FHA and VA. Some have been listed for as long as two years.

3. You should consider that a majority of the South Texas market is severely depressed and/or suffering from adverse economic conditions. Based upon the current sales experience in our own property sales program, VA is not now able to sell its homes for the appraisal value you estimated for the VA in the liquidation appraisal report. VA is cognizant of these conditions and considers date of sale adjustments ranging from MINUS 5% to MINUS 20% to be fully supportable when you are unable to verify sales data that have occurred within six months of the subject's date of appraisal.

4. These market conditions and appropriate adjustments made to comparable sales data must be considered by all VA fee and staff appraisers when completing VA appraisal reports for

a. Loan liquidation purposes,
b. Loan origination (proposed and existing construction), and
c. Refinancing purposes.

5. All VA fee personnel are reminded that their appraisal report is for the benefit of the VA not the veteran, seller, builder, lender, or real estate agent. We do not expect the appraiser to HIT SALE PRICE when the sales and list prices of the comparable properties tell us the values have declined or are declining.

F. M. McREAKEN
Loan Guaranty Officer

DIST: I, J

"America is #1—Thanks to our Veterans"

United States General Accounting Office

GAO

Testimony

EXHIBIT "K"

For Release
on Delivery
Expected at
1:00 p.m. EDT
Wednesday,
May 13, 1987

VA's Home Loan Guaranty Program

Statement of
John H. Luke, Associate Director
Resources, Community, and Economic
Development Division

Before the
Subcommittee on Housing and
Memorial Affairs
Committee on Veterans' Affairs
House of Representatives

SEE HEARING OF HOUSING AND MEMORIAL AFFAIRS SUBCOMMITTEE -
GENERAL ACCOUNTING OFFICE - MAY 13, 1987

GAO/T-RCED-87-24

3000 Travis Street
Houston, Texas 77006-3699

Mailing Address
P.O. Box 2885
Houston, Texas 77252-2885

713 525-8000

Mortgage and Trust, Inc.

STATEMENT OF TERRY J. DEYOE

SENIOR VICE PRESIDENT

MORTGAGE AND TRUST, INC.

COMMENTS TO COMMITTEE ON VETERANS AFFAIRS

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

Madam Chairwoman and members of the Committee, my name is Terry J. Deyoe. I am Senior Vice President of Mortgage and Trust, Inc., a major mortgage banking firm with the home office in Houston and Branch offices located in all major cities in Texas. Our mortgage portfolio of four billion with in excess of ninety thousand FHA and VA home loans is principally in Texas. My twenty-five year tenure at Mortgage and Trust, Inc. has been in the area of loan administration which includes servicing endeavors of VA loans.

I appreciate the opportunity to appear before you today to discuss issues pertinent to the Veterans Administration's Home Loan Guaranty Program, especially those issues affecting the Veterans, our state/community and my industry.

First, as a Director of the Texas Mortgage Bankers Association, I would affirm the position, statement and recommendations of the Association and the testimony to be presented to this committee by our Association President, Mr. H.S. "Dee" DeWitt.

In my opinion, the following four basic problems come to the forefront on this VA issue:

3000 Travis Street
Houston, Texas 77006-3699

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P.O. Box 2885
Houston, Texas 77252-2885

713-525-8000

Mortgage and Trust, Inc.

1. Helpless veterans are losing their homes because current regulations discourage lenders from extending help or forebearance to veterans. In years past, industry practice was to help veterans in every way possible through formal or informal forebearance to prevent foreclosures. However, lenders who continue to do this today increase their risk of prompting default cases to become VA No-Bids if the forebearance fails.
2. Helpless lenders are losing millions of dollars due to delays caused by poor VA foreclosure and claim paying procedures together with their staffing problem. It is my personal knowledge that employees in the two Texas VA Regional offices want to improve performance of VA operations but simply are not getting needed support or appropriations from Washington. Not only do lenders suffer financial loss, but veterans do also when VA's delays add interest to the debt and subsequently increase the deficiency amount due from the veteran. There should be no reason a lender must wait four to six months for payment of funds following conveyance or claim filing. In addition, the delays in the foreclosure process caused by VA add to the No-Bid issue.
3. Current property disposition strategy being pursued by VA of auctions and sales at below normal market prices is a leading contributor to the snowball effect and decline in property values in our community and state.

The veteran "next door" who is still trying to pay his mortgage is affected.

4. VA No-Bids resulting from current regulations or practices by various VA offices can only harm the veterans, the lenders and the VA program because lenders will simply stop making VA loans.

Solutions to these problems should include:

1. Encourage lenders to extend forebearance by limiting interest in the No-Bid calculation.
2. Appropriate necessary funds for VA to prudently run its business including adequate staffing.
3. Change the property disposition strategy to market acquired properties at current market values so as not to destroy the market.
4. Change the No-Bid formula to take into consideration the plight of both homeowners and lenders in areas of economic distress to lower the number of No-Bid cases in these areas.

Thank you for allowing this Texan the opportunity to present these comments to the Subcommittee.